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Research on the Evolution of Accounting Thought and Accounting Practice

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THE ACCOUNTING HISTORIANS JOURNAL

Semiannual Publication of
The Academy of Accounting Historians

Volume 18, Number 1 **June 1991**

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THE ACCOUNTING HISTORIANS JOURNAL
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The editors encourage papers on subject matter related to the development of accounting thought and practice. In addition, papers on biographical subjects and on historical method are encouraged.

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MAINTAINING ACCOUNTING AS THE PARAMOUNT INTEREST IN ACCOUNTING RESEARCH: RE-EXAMINING THE CONTRIBUTIONS OF DR SCOTT

Abstract: Cushing's [1989] recent analysis of Kuhn's [1970] characterization of the state of crisis within a discipline's research agenda suggests that the accounting discipline is showing symptoms of such a crisis. In this paper, DR Scott's [1931] classical work *The Cultural Significance of Accounts* is developed in terms of it being one of the earlier and more significant efforts to recognize a pending crisis within the accounting research arena. Scott's work is defined as not only being a precursor to identifying the crisis in accounting research, but also as providing a meaningful basis for addressing the significant issues embedded within the contemporary research crisis. The intellectual underpinnings of DR Scott's work are traced to that of Max Weber, Thorstein Veblen, and other scholars concerned with examining the changing status of society and economic organizations. It is argued that it is this critical appraisal of the relationship between economic organizations and society which drives Scott's concern for the fundamental issues at stake for accounting research.

The authors thank the University of Wisconsin-Madison Industrial Research Program and Price Waterhouse Foundation for their financial support. Earlier versions of this paper were presented to and benefitted from presentation and constructive comments in the organizational and accounting seminars at the University of Wisconsin-Madison, the Pennsylvania State University, Queen's University, the University of Connecticut, and the Institute for Informatik & Okonomistyring at the Copenhagen School of Economics and Business Administration. We particularly wish to thank Stan Biggs, Anthony Hopwood, John Meyer, Jeff Michelman, Anne Miner, and Mayer Zald for comments pertaining to earlier versions of this paper. The authors also wish to thank two anonymous reviewers for their constructive and insightful comments towards the improvement of this paper.

Drawing on the landmark *The Structure of Scientific Revolutions*, Cushing [1989] used Kuhn's [1970] characterization of the state of crisis within a discipline's research agenda to suggest that accounting is showing symptoms of such a crisis. One symptom which Cushing alluded to is the "role of expectations," or in Kuhn's terms, "the awareness of anomaly, i.e., with the recognition that nature has somehow violated the paradigm-induced expectations that govern normal science" [1970, pp. 52-53]. The anomaly is initially seen as an artifact of imperfect research methods which, if not resolved, can "eventually plunge the discipline into a state of crisis" [Cushing, 1989, p. 20]. At this point, all issues are re-examined including the mainstream paradigm to be scrutinized through use of alternative paradigms; the identification of different means for conducting research; and abandonment of science altogether, amongst other possibilities. Cushing has accorded special prominence to this stage of crisis, suggesting that while accounting researchers have not deserted science altogether, they have nevertheless largely abandoned the traditional concerns of accounting to embrace theoretical constructs derived from what are thought to be the more rigorous scientific disciplines (e.g., economics, psychology, etc.) with which the accounting phenomena are studied.

The purpose of this paper is to extend some of the themes raised in Cushing's critique of Kuhn, with particular reference to DR Scott's [1931] classic work, *The Cultural Significance of Accounts*. Scott's work was one of the earlier and more significant efforts to recognize a pending crisis within the accounting research area. First to be addressed is Cushing's important distinction between the first state of a crisis — where the symptoms are seen as frustrations with the problem-solving process; fidelity to the paradigm itself is maintained — versus the second stage — where more profound issues concerning the discipline itself are raised. Cushing observed that the accounting discipline has gone through, and continues to experience, this first stage of crisis, with the legacy of such first-order concerns being expressed in the recent scholarly work that has questioned the status, role and effectiveness of accounting information in contemporary organizations [see, for example, Kaplan, 1983, 1984; Johnson and Kaplan, 1987; Patell, 1987]. The next step is to identify the issues at stake in the second stage of the crisis, or wherein second-order concerns are invoked [Popper, 1966; Christenson, 1983]. Here, the mainstream paradigm itself is questioned, as particularly evidenced in the early work of DR Scott.

From this base which recognizes the character of first and second order concerns in accounting research, the next section moves in a different direction than Cushing's critique. While Cushing identified a robust array of *contemporary* issues surrounding these stages of the research crisis, this paper directs attention to examining *historical* concerns expressed in the classical work of DR Scott. Here, Scott's work is defined as not only being a precursor to identifying the crisis in accounting research, but also as providing a meaningful basis for addressing the significant issues embedded within the *contemporary* research crisis. The intellectual underpinnings of Scott's work are traced to that of Max Weber [1947], Thorstein Veblen [1923], and other scholars concerned with examining the changing status of society and economic organizations. It is this critical appraisal of the relationship between economic organizations and society which drives Scott's concern for the fundamental issues at stake for accounting research. The final section of the paper identifies a number of contemporary issues to be addressed by accounting researchers that are motivated by both the thoughts embedded in Scott's classical work and the concerns expressed by Cushing that researchers direct their attention to examining the fundamental issues that distinguish accounting from other disciplines.

FIRST AND SECOND ORDER CONCERNS IN ACCOUNTING RESEARCH

Recent field-based accounting research focusing upon successful organizations has sought to reveal their various structures and processes — particularly as they relate to the role of accounting information — in an effort to develop accounting systems having better representational faithfulness thus helping make organizations more effective. For example, Johnson and Kaplan observed that:

> Corporate management accounting systems are inadequate for today's environment. In this time of rapid technological change, vigorous global and domestic competition, and enormously expanding information processing capabilities, management accounting systems are not providing useful, timely information for the process control, product costing, and performance evaluation activities of managers [1987, p. xi].

Consistent with the first-order concern as to improving accounting so that it may be developed in solving an organization's technical problems [Popper, 1966; Christenson, 1983], extant case study research [e.g., Patell, 1987; Kaplan and Cooper, 1987] has sought to study changes in accounting practices accompanying the implementation of new manufacturing techniques. Topics addressed in this new case study research tradition are such issues as the association of just-in-time (JIT) manufacturing with changes in accounting practices; the role of cost accounting in product design, process control, and quality assurance; and the relevancy of variable and fixed cost distinctions in management decision making. Importantly, these field studies represent first-order concerns focused on revealing an objective, physical reality, albeit a complex and dynamic one, both in terms of isolating accounting systems that faithfully represent this reality and conducting research designed to map this reality, and identify and align appropriate accounting systems.

While this outcome suggests that research should not only be concerned with studying accounting but also product design, process control, etc., *per se*, its focus remains solely on understanding an objective and physical reality. This first-order concern does not question the accounting paradigm itself; it merely seeks to encapsulate such anomalies and rapid technological revolution. Instead, such a perspective urges a close scrutiny of organizational activity so that the accounting systems adopted accurately reflect the complex conditions confronting today's organizations. Consequently, accounting information is used as a technical device for coping with an objective world, rationally fostering efficiency, order and stability [see for example, Magee, 1988; Hilton, et al., 1988; Niehaus, 1989; Penno, 1990]. Thus, the role of researchers and practitioners arising in this analysis is to discover or invent accounting systems that best reflects underlying economic reality by more rigorously addressing anomalies.

Organizations are, of course, not only reflections of a physical and objective reality — they are also manifestations of myriad social forces. The first-order concern of studying accounting as one form of technology and its relationship to other technologies as an economic interpretation of events is, in Scott's view, inherently limited because the:

> Economic interpretation of history . . . implies a unity of culture. If a process of development or evolution is assumed, the theory becomes one relative to the technique of that process. It runs to the effect that methods of production and distribution are continually in the process of development, whereas the institutional superstructure of

> society tends to be conservative and to perpetuate itself . . . . [T]he social sciences . . . have been concerned with abstractions dealing with a different aspect of a unified cultural organization [1931, pp. 26 & 27].

This assumption as to the development of methods of production within a unified cultural organization and "host" society implies an egalitarian nature of organizations and society where the distribution of power and rewards are inevitable consequences of the application of these methods of production. This depiction of such a benevolent and neutral host society (in Scott's terms, an image of a conservative, self-perpetuating society) where the major concern for accounting is in terms of its role with fostering efficiency within the development of methods of production ignores the critical topic to be investigated — the role of accounting between internal organizational structures, ideologies, and processes and the society within which they exist. As Scott [1931, p. 27] poignantly argued, methods of economic production are themselves " . . . a cultural matter and not an outside cultural determinant." Thus accounting, control and the methods of production, must be seen in terms of the nature and priorities of the "host" society rather than as consequences of particular methods of production.

On this point, Schutz [1967], albeit from a much different perspective, argued that social experience can only be understood with respect to the meanings attached to it by the social actors themselves. Therefore, it becomes important that research attention be directed at probing the "lived experience" of social actors, by having them reflect on their experiences and actions and attribute meaning to them. This approach focuses on language, sense-making and reflexivity by actors, and on understanding a socially constructed reality. Rather than view the experience and interpretation of individual actors as isolated and idiosyncratic — or in Scott's [1931, p. 127] terms, research that depicts the human experience as " . . . summed up in certain abstract principles that a much larger volume of economic products has resulted" — the actors are seen as social and intersubjective in the sense that they also ascribe meaning to the actions of others in making their own experiences intelligible. Thus, socially constructed meanings and norms are born, thereby forming an emergent, stable — albeit temporarily — social world that becomes institutionalized, taken for granted, and later to be confronted by the individual. This is in stark contrast to the dominant, first-order concern and its focus on developing various accounting methods and techniques to foster efficient production.

It follows that accounting practices may be seen as temporarily stable, institutionalized social constructs that simultaneously shape and are used by individuals in attributing meaning to organizational actions [Schutz, 1967; Bernstein, 1976; Van Maanen, 1979; Burrell and Morgan, 1979; Chua, 1986]. The importance of such a perspective is suggested by Scott:

> Man's much vaunted control over nature can be expressed more aptly by putting man *inside the process* and describing the situation in terms of control over his actions. . . . He is *not outside the sphere of causal determination*. . . . The necessity of keeping man within the social process has been made a basis for distinguishing the social sciences from the physical sciences [1931, pp. 127 & 128, emphasis added].

Scott [1931, p. 133] went on to suggest that the development of accounting " . . . must be provided for within the process of cultural change. . . . " thereby emphasizing the importance of such issues as the social creation of accounting, how alternative sets of meaning are attributed to it, and the presence and influence of competing interest groups within organizations and society who differentially deploy accounting to serve these interests. Scott [1931, p. 264], for example, called attention to accounting being complicit in the creation of organizational manager's reality, both in terms of determining the goals of management as well as the means to achieving these goals, stating "Accounting and statistical methods are serving as vehicles of the current cultural reorganization because of their limitation of expression to objective terms" [see also Ijiri, 1967, pp. 158-159]. As Scott suggested,

> The solvent in which these institutes are fused and molded into such unity as they possess, is not a physical environment, *but a common way of thinking* [1931, p. 29; emphasis added].

Similarly, drawing upon Bernstein [1976], Chua [1986] identified the contributions of a social-action perspective in terms of the research questions generated from such a perspective. Consistent with Scott's concerns as to the role of accounting information in society and organizations, Chua suggested that the type of research issues raised by this perspective include: how is sense of social order produced and reproduced through accounting information in everyday life; how does accounting information become part of the deeply embedded rules that structure the social and organizational world; and how is the importance of accounting information sustained and modified? In short, a critical element of a social-action perspective is that it relates the major features of organizations, in the current case accounting, to broader developments in society, especially the process of rationalization, "... the growing precision and explicitness in the principles governing social organization" [Albrow, 1970. p. 43]. The social issue of formal rationality thus transcends organizational boundaries to include social action both internal and external to the organization.

In summary, as March recently observed in a plenary speech before the American Accounting Association:

> These components of decisions and decision processes are not unfortunate manifestations of an irrational culture. They are important aspects of *the way organizations develop the common culture and vision* that become primary mechanisms for effective action, control and innovation. As a result, information strategies are as much strategies for managing, interpreting and creating visions as they are strategies for clarifying decisions. And if this sometimes seems perverse, it may be well to remind ourselves that human life is, in many ways, less a collection of choices than a mosaic of interpretations. It *involves both discovering reality and constructing it* [March, 1987, pp. 38-40; emphasis added].

Rather than reflecting a first-order concern of solving the problem of better aligning accounting with new manufacturing technologies, it can consequently be argued that research should be focused on the second-order concern of studying social actors involved with using accounting to attribute meaning to organizational actions [Popper, 1966, Christenson, 1983].

On this point, Hopwood [1990a; 1990b] has argued that accounting is centrally implicated in the institutional frameworks, language, and the patterns of power and influence that characterize contemporary organizations. The power of accounting derives from its ability to move beyond merely facilitating the operation of pre-given and relatively unproblematic forms of economic management, such that accounting categories take on a visible, rule-like status in social thought and action, thus transcending even social and political considerations. It follows that research interest in accounting should not be conceived as purely a technical one, but also stands for much broader issued by which patterns of power and influence are developed and maintained as they concern the nexus linking the organization with society. As Scott stated:

> The most significant thing in current institutional development relative to the adjustment of economic interests is not a shifting of responsibility from economic to governmental machinery. It is rather a shifting of responsibility to accounting processes of adjustment and an organization of economic control about accounts. *So pervasive is this tendency that it promises a leading role for accounts in the process of institutional re-construction* [1931, pp. 236 & 237; emphasis added].

THE INTELLECTUAL BASIS FOR DR SCOTT'S WORK

The underpinnings of Scott's [1931] perspective on the social and organizational role of accounting information are rooted in his observations as to events in the early 1900s, or the "Progressive Era." Initially seen as progressive, this reform era ostensibly sought to expunge the overt exercise of power by big business in governmental affairs by adopting rational administration practices, to include accounting, as applied by experts. Subsequently, this era was reinterpreted as a triumph of conservativism in the sense that these practices and experts actively preserved the basic social, political and economic relations essential to a capitalist society [see, for example, Kolko, 1963; Larson, 1977].

"Progressivism" may be seen as involving a concerted effort to preserve the status quo as to existing power and social relationships, in which the general welfare of the American society was best served by satisfying the concrete needs of business. More specifically, Kolko argued:

> It is business control over politics (and by "business" I mean the major economic interests) rather than political regulation of the economy that is the significant phenomenon of the Progressive Era. Such domination was direct and indirect, but significant only insofar as it provided means for achieving a greater end — political capitalism. *Political capitalism is the utilization of political outlets to attain conditions of stability, predictability, and security — to attain rationalization in the economy*. . . . I do not give to *rationalization* its frequent definition as the improvement of efficiency, output, or internal organization of the economy and the larger political and social spheres in a manner that will allow corporations to function in a predictable and secure environment permitting reasonable profits over the long run. [1963, p. 3, emphasis added].

Reflected in this view is at once a merging and prioritization of the economic and the political, in which stability and predictability are engendered by applying the realm of rational calculation to not only economic but also political endeavor. Kolko further suggested that the merging of *legitimization* as a form of economic decision-making *and* politics — an ideological shift symbolized by the trappings of rationality — involved making political centralization concomitant to the centralization and stabilization of economic production. The progressive movement, therefore, sheds light not so much on the *content* of public policy, but rather on the *nature* of the resulting political structure and the *types* of human interactions peculiar to this political structure [Hays, 1959; Wiebe, 1962, 1967]. For Kolko, organizational control over politics was indeed embedded in and facilitated by the rationality exported to government, and its subsequent, institutionally-mandated use to legitimate government intervention to society. These expressions of legitimacy served as a seemingly apolitical means for controlling society without specific reference to political motives or morality: they were objective and the value of their use self-evident. The implications of such interaction and the manner in which these legitimizing actions supported a political structure operating within the immediate interests of powerful groups, was suggested by Searle in the following:

> A variant on the cult of the scientific expert was the cult of the businessman. The distinction between commercial and political activity was blurred in much of this propaganda, and vague calls for more businessmen in government often leave one uncertain whether the writer actually wanted to introduce industrialists into the public service, or merely ensure that capable, efficient, "business-like" politicians, rather than rhetoricians, controlled the destinies of the nation. In either case, the ethics and methods of business were being put forward as an ideal by which the conduct of public policy should be guided [1971, p. 86].

Similar to Scott's [1931] theorizing, political rationalization vis-a-vis economic rationalization became *the* means of attaining both order in the economic sphere and security in the political arena. It followed that accounting practices evolved in a manner more than just to formulate and legitimize economic actions, but also to preserve the status quo vis-à-vis power of specific business and political actors. As Scott argued, rationalized administrative policies and practices did not emerge as a consequence of widespread concern for operational efficiency, but as an artifact of the power nexus linking economic and political spheres of influence. Scott stated:

> It might well be pleaded that even if accounting control supplants market control, it is not to be expected that a theory of accounting control should be developed temporaneously with the fact of accounting control. The theory of market control developed much later than the fact of market control. Hence it might well be concluded that as yet we cannot undertake to discuss the development of a theory of accounting control even granting that from an institutional stand-point accounting control is becoming a fact [1931, p. 241].

Scott's intellectual heritage can be traced to Thorstein Veblen [1923] who did much to rekindle interest in an "institutional" approach to economic problems — i.e., a perspective which emphasizes the importance of examining the workings of an economy's basic institutions. Veblen was concerned with the limitation of the neo-classical model and the ability of this model to provide insight on the crucial social and organizational problems. In particular, Veblen's research agenda focused upon the dynamic factors in economic life because he felt that the neo-classical model was almost totally oblivious to the analysis of change. It is this analysis of change, particularly the impact of the changing social and organizational forces at the turn-of-the-century, and the role that accounting played within these changing forces, which motivated Scott's intellectual perspective. Consistent with Veblen's critique that economic generalizations were systems of rationalizations for the going system of economic power, Scott stated that theories of control — whether it be market control or control embedded in accounting — develop much later than their practical application, thus serving to rationalize systems of power. As both Veblen and Scott argued, the history of neo-classical economics has taken for granted the very things that most needed proving: the role of economic or accounting information in the creation and legitimization of existing social and organizational structures, ideologies, and processes.

The classical work of Max Weber [1947, 1958] in the late nineteenth century provides a framework to examine these various concerns by both Scott and Veblen for the manner in which power is embedded in rationality, particularly as events and relationships formed at the turn-of-the-century. Weber discussed multiple rationalities that have the potential for conflict and contradiction

[Kalberg, 1980; Higgins and Clegg, 1988]. In its elementary formulation, *formal rationality* refers to the capacity to control the world through calculation. Here rationality is a consequence of empirical knowledge, and knowledge of the relations between means and ends. Formal rationality is applied to organizations to establish "objective" decision-making criteria for gaining precision, certainty and predictability [Brubaker, 1984, p. 11]. *Substantive rationality*, or interest-based rationality in contrast, is concerned, not with formal *means*, but with ultimate *ends* to which formal means may be put. This is an evaluative concept denoting the furthering of ends of specific social interest groups [Weber, 1968, p. 499]. This involves the intellectual elaboration and deliberate sublimation to ultimate ends. In this sense, rationality is a *result* of taking a consistent and unified stance toward the end of a group [Brubaker, 1984, p. 11]. This refers to substantiating and systemizing meaning patterns that define interest groups.

The combination of both formal and substantive rationality provides the framework for understanding the character of interest groups inside and outside the organization [Scott, 1931]. Importantly, power and politics no longer remain a force outside the direct interests of the actors involved. Weber saw the critical issue to be the politics of rationality, emphasizing that no acceptable understanding of any formal feature of organizations could be achieved unless it proceeded from the realization that organizations are structures of control and domination. The richness of Weber's distinction between forms of rationality rests on the identification of *tension* between formal rationality, i.e., the instrumental form of "correct calculation" that links means to ends, and substantive rationality that expresses the ends to which this "correct calculation" is to be put. This inherent tension is ascribed to exist because formal rationality can be obtained only under certain specific substantive conditions. In turn, these substantive conditions, which exist to support formal rationality, are always fundamentally in conflict with the interest and values of groups subscribing to alternative forms of substantive rationality. Weber's concern for this antagonism pertained to the possibility that the means to decision making, or accounting information, would impact the ends of decision making, i.e., the claim to rationality inherent in the belief that accounting information would become a *legitimism (an ideology) in-of-itself*. The formal rationality of problem-solving can make issues that are inherently political — that is, concerned with values, interests and choices of priorities — seem to be merely technical matters that are solvable by seemingly rational means. In short, Weber characterized organizations and society as the objectification or depersonalization of the structure of power and authority in *both* the economic and the political realms [Brubaker, 1984].

Thus, Weber's work supports the heritage of institutional economics embedded in the work of Veblen and Scott where the major concern was the interface between the economic problem-solving processes and the political system within organizations and society. Furthermore, Weber's notion of multiple and potentially contradictory forms of rationality, similarly corroborate the basic tenets of Scott's depiction of accounting information as a constitutive manifestation of political and decision-making rationalities in organizations. Similarly, Veblen felt that technocracy is not just the application of technical methods to the solution of defined problems, but a pervading ethos, a world-view which subsumes aesthetics, religion and customary thought to the rationalistic mode. Therefore, a common thread between Weber, Veblen, and Scott is their depiction of rational, quantitative information such as accounting when they define this information as serving *simultaneously* as providing an *instrumental solution* within the social, political and managerial decision process and, secondly and more importantly, as a *political exchange* by apparently depoliticizing control of the work performed by organizations.

THE IMPLICATIONS TO BE DRAWN FROM SCOTT'S WORK

The quintessence of culture and politics, for Scott, was the construction and reconstruction of social, political, and organizational accounting. Furthermore, this politicality is not just waiting to be activated in special situations, such as in the more readily identified, political dimensions of organizational life. Instead, these logics of action, or politicality, are continually mobilized in the ongoing events, or specific processes and their interrelations of the organization where these ongoing events are, in effect, constituted in struggles which may be represented discursively as diverse ways of being rational. These logics are embedded in the very events, processes and relationships which these logics are merely to passively and faithfully represent.

This political role of accounting is evident in Wildavsky's [1975, 1987] ongoing work that has long argued that research concerning the formation of political preferences involves not only the study of how people try to get what they want through political activity, but also the study of why people want what they want. As Wildavksy [1987, p. 3] observed, "Preferences come from the most ubiquitous human activity: living with other people." The shared values legitimating social relations serve to both be the source of individual preferences and, more importantly, to create values for the social milieu itself which are then applied to interpreting objects and events on both social and individual levels. The major choice made by people, therefore, is the form of culture — the shared values legitimating social practices — they adopt. Individuals exert power over each other by institutionalizing their moral judgments and justifying their interpersonal relationships. What varies is the form and extent of the manipulation of power. Ideological constraint among preferences, then is not created by exogenous forces, but through social interaction, making the study of institutions central to understanding the role of accounting in organizations and by individuals. The purposes institutions, in turn, create are expressed by their social practices which serve as a way of constituting power. Wildavsky [1987, p. 17] summarized this view when he observed "that in political activity the end (telas) is not pursued, but lies in the activity itself." As Wildavsky argued:

> Put plainly, people decide for or against existing authority. They construct their culture in the process of decision-making. Their continuing reinforcement, modification and rejection of existing power relationships teaches them what to prefer. . . . Preferences in regard to political objects are not external to political life; quite the contrary, they constitute the very internal essence, the quintessence of politics: the construction and reconstruction of our lives together [1987, p. 5].

Consistent with this theme, accounting systems can be viewed as complicit in the social construction of highly rationalized myths, representing both an effort by society to define for organizations what is appropriate, *and* an organizational exercise directed at legitimating it to its external constituents by demonstrating a conformity to institutionalized rules, thereby encouraging society's continued support. Regarding this dual role, Scott observed that:

> Accounts are tending, in a narrow sense, to become an application of statistical methods to the problems of business control. *In a broader sense*, they are becoming the application of statistical methods to the adjustment of

> conflicting economic interests [1931, p. 237, emphasis ours].

Mechanisms for organizational control are seen as arising out of the inherently political and conflictual nature of organizational and social life. Accounting is at least partly determined by a broader social realm seen as being widely used and as socially expected. Decision-making and control now became a more elaborate, procedurally-oriented process, involving measurement and prediction, and also involving an increasing reliance upon a professional cadre who could develop and manipulate information, thus providing the techniques for shaping the course of events to reach predictable if not stable outcomes [see also Abbott, 1988].

An important component of this political perspective is embedded in Hickson's [1987] notion of the "rules of the game" which provide the origin to determine what can and cannot be decided, as well as how it may ultimately be decided. Hickson reasoned that the elite maintain a grip of what is going on by developing, depending and altering the rules of the game which are, in turn, expressed in the constitution and structure of the organization itself. According to Hickson [1987, p. 174] ". . . those who have power to do so set it up on a legal basis with basic resources that frame their intentions on what should and should not be done." Consequently, the rules of the game provide a frame of reference for identifying the underlying logic or rationality of the patterning of organizational actions [Karpik, 1978; Clegg and Dunkerley, 1980]. This emphasis on power, politics and the framing of social and organizational interaction through rational information is evident in Scott's observation:

> The current situation is pluralistic in the sense that opposing economic and social groups hold to radically different beliefs and do not recognize a common allegiance to one of fundamental authority. A solution must follow the rule of law that an adjudication must be based upon a real and not an assumed conflict of interests. . . . The history of accounting development discloses a growth of accounting functions, an increasing dependence of business administration upon accounts, and the absorption of accounting technique into the body of social machinery through which conflicting economic interests are adjusted [1931, pp. 159, 205].

Similarly, for Hickson, accounting information — serving as the rules of the game — provides the *covert*, underlying logic or rationality embedded in the power and politics that frame the organization, thus minimizing both the perceived complexity of the decision-making and the need for overtly political actions. These objectified rules of the game form a critical component of the covert or "non-decision" aspects of power which provide the taken-for-granted values and managerial language. Hickson further argued that such specialist disciplines as accounting develop the rules of the game to provide this legal framework, thus gaining influence by representing a decision-set of interests in the organizational coalition of internal and external interests which sustain the organization. Zald [1970; p. 253] argued that rationalistic economic information such as accounting not only serves to represent the state of various aspects of the productive exchange system, but also is ". . . developed by organizational elites and powerful external authorities to channel the flow of resources within the organization." Zald [1970; p. 252] went on to stress that accounting systems are critical connecting tissues of problem-solving and politics, created for, and largely used by, influence-wielders. The character of the overt decision-making process is important, but the covert, non-decision processes, i.e., the power that frames the organization, matters even more.

Edelman [1977] extended this thesis with a more specific concern as to the nature of power relationships embedded in the "objects and rituals of truth" expressed in daily life through use of appropriate language, myths and symbols. Edelman emphasized that the potential for active coercion always lies behind extant norms of acceptable discourse and behavior. Viewed as a form of language, such quantitative data as accounting information are selectively deployed by the state, not to reflect underlying economic conditions, but to create public values, acquiescence, and support. Thus, "consent of the governed" comes about not from the conscious acceptance of rules of procedure, but as acquiescing to and taking for granted an accepted language, thus at once creating and supporting a hierarchical relationship between the governed and the state. Although this language is cloaked in the appearance of objectivity and neutrality, it is ultimately directed toward establishing and maintaining hierarchies of authority and status, carrying with it a moral as opposed to economic order. Similarly, Burns concluded:

> Rule systems, as important as social technologies, become resources and stakes in social interaction and the strategic structuring of social life. Thus, they cannot be viewed as simply "neutral" or "technical means" of realiz-

ing certain purposes. . . [They constitute] a power resource which social agents utilize in their struggles and negotiations over alternative structural forms and development of social systems serving their interests [1986, pp. 28-29].

SUMMARY

Emerging views of accounting and organizations, as established in the intellectual foundation of Scott's work, take issue with the assumption of objective reality and the passive, merely representational faithfulness claims of accounting. Scott critiques the traditional and still orthodox perspective of accounting in the following:

> They [social scientists] appear to think of social phenomena as retaining their present characteristics, that is, as remaining constant, while man learns to control them. They thereby put man outside of society. They do not seem to appreciate that an understanding of social phenomena running in objective terms would, if it became general, constitute or involve a fundamental change of social phenomena. Such an illusion is corrected by including man in the causal process [1931, p. 131].

According to this second-order concern, the implementation of such apparently rational mechanisms as accounting is one manner by which the social world flows through organizations and pervasively influences them. Theorists have begun to recognize accounting as a socially constructed phenomenon rather than as a technically rational function driven by and serving the internal operations of organizations. Furthermore, such a perspective recognizes that once an accounting system is implemented, what it accounts for shapes the organizational members' view of what is important and, more fundamentally, even what constitutes reality. Accounting is seen as being implicated in the social construction of reality rather than as being passively reflective of it. As Scott prophetically observed:

> Emphasis upon the influence of the machine process should not be carried to the point of making it the exclusive origin or cause of the new bent in business management. While the machine process undoubtedly is responsible in part for the corporation's dominant role in modern business, it would be a mistake to ascribe the vogue of the corporation altogether to technological influences. . . . The argument here is concerned with a change

> of discipline whose influence upon institutionalized habits of thought is a slow but patient and unhurried process [1931, pp. 148 & 149; emphasis added].

The theme advanced is consistent with Scott's [1931] perspective on accounting which argues that the exercise of influence on social action is transformed in a subtle, but important, way. The objects and rituals of truth, as represented in the rules of the game, or the formal rationality of accounting information, represent normal, accepted power relations in organizations and society that these practices *produce* social reality and determine the social action that takes place [Veblen, 1923; Weber, 1947]. The organization, as an arena, serves as a locus of decision-making where individuals and groups attempt to dominate through coalitions engaged in negotiations to force their own ends upon the purposes of the organization [Karpik, 1978]. These coalitions of power are revealed in the various forms of strategic purpose, i.e., logics of action, that they invoke. It is important to examine these decisions to study both power and the manner in which accounting is deployed. Accounting, as a logic of action, represents individuals and groups, and is developed, deployed and modified from either within or without the organizational arena [Scott, 1931], to serve differing interests that are struggling to mobilize the resources and direction of the organization, as revealed in decision-making processes governed by rules of the game which represent their interests.

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BRANCH ACCOUNTING: EVIDENCE FROM THE ACCOUNTING RECORDS OF THE NORTH AMERICAN MORAVIANS

Abstract: Europeans transported continental accounting practices during the period of worldwide colonization. This paper describes the transportation of branch accounting by members of the Moravian Church. Physical records maintained in the Archives for the Southern Province of the Moravian Church at Salem, North Carolina, and for the Northern Province at Bethlehem, Pennsylvania, contain a complex, two-tiered system of branch accounting for the enterprises within the settlements and the settlements within the worldwide Church. This paper traces recorded activity for 1775 from an enterprise to its diacony (business organization of a church) and from the diacony to the European Church headquarters. Reporting practices in both North American diaconies reflect a similar practice of branch accounting, each culminating in formal financial statements to the European "home office" of the Moravian Church.

Many is the long winter evening that I have passed in the wigwams of the Delawares, listening to the good Moravians . . .

Today, over a century and a half since James Fenimore Cooper made this reference to the Moravians in *The Prairie*, the average scholar is perhaps only slightly familiar with the history of the Moravians. By consulting the bookkeeping records left behind by the Moravian settlers, accounting scholars will gain a greater understanding of accounting practices transported to

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the United States from Europe prior to the Revolutionary War, specifically the concept of branch accounting.

The purpose of this paper is to examine the well-developed system of accounting maintained by the North American Moravians in the late eighteenth century and to relate the method to modern branch accounting. The results of this research indicate that the Moravians employed a two-tiered system of branch accounting that incorporated elements of the equity method of accounting for investments as early as 1774. Additionally, the accounting records provide evidence of the Moravians' willingness to use profit incentives when required to encourage development of needed business enterprises within this church-centered community.

This paper is organized as follows. First, a history of the Moravians is presented to provide the context in which the branch accounting system was developed. Second, the nature of modern branch accounting is briefly described as a basis for comparison with the Moravian system. Finally, a comparison is made between modern branch accounting and the practices evident in the Moravian records and financial statements. Evidence of the practice has been gathered from the accounting records of two North American branches: Salem, North Carolina, and Bethlehem, Pennsylvania. The activity in one enterprise for the year 1775, the saw mill in the North Carolina settlement, is traced through two tiers of branch accounting, culminating in formal statements to European Church headquarters. In the first tier, the enterprise reports to its home office, the diacony; in the second tier, the diacony reports the same activity in financial statements to the European home office.

A BRIEF HISTORY OF THE MORAVIANS

Except for a few pre-reformation groups which were never classified as churches, the Moravian Church can be called the oldest of the Protestant churches [Groenfeldt, 1954]. Like the Shakers during the eighteenth century [see Kreiser and Dare, 1986], the Moravians were a communal society composed of hard-working and industrious members. A Moravian settlement consisted normally of a village, the inhabitants of which belonged without exception to the Church. An inn, general store, mill, smith, tannery, and possibly other industries were carried on as church undertakings. Unlike the Shakers, the Moravians eventually dropped their communal ways and today have a membership of approximately 55,000 members [Durnbaugh, p. 3]. Both groups had an interest in maintaining good accounting records.

The following is a brief chronology of the events in Moravian history prior and subsequent to the routine transactions described on subsequent pages:

PERIOD	EVENT
1735-1770	Moravian communal settlements founded in Georgia, Pennsylvania, Ohio, and North Carolina.
1774	Branch accounting records prepared by the Salem colony are forwarded to European Home Office (as are similar reports in Bethlehem, the seat of the Northern Province).
1800s	Movement away from Moravian communal societies.
1980s	55,000 Moravian members in 156 congregations. Extensive archives maintained in historic Bethlehem and Winston-Salem settlements.

The Moravians As Record-Keepers

Historic records at the Salem and Bethlehem Archives contain detailed information concerning daily life, travel, and events in Europe, the Southern Province centered in Salem, North Carolina, and the Northern Province centered in Bethlehem, Pennsylvania. Apart from their personal interests, letters contain advice asked and given, negotiations for the filling of various offices, and the general details of life. These details are mirrored in the *Memorabilia* and *Diaries of Wachovia*, translated from German and published by the North Carolina Historical Commission. The Moravians have a history of recording the written word: of the sixty volumes printed in Bohemia between 1505 and 1510, fifty had been produced by Moravian printing presses [Fries and Pfohl, 1926]. Possessing a strong commitment to reporting financial details, it is not unusual for personal diaries to include detailed expense accounts of the author's travels, budgets, and the reports of daily commercial transactions, including the daily wage of employees and the appraisal value of properties.

The majority of enterprises in the Northern Province were owned by the Church; the majority of enterprises in the Southern Province were owned by Church members who shared a profit ratio with the Church. Carved out of the Southern wilderness from a 100,000 acre land grant by Lord Granville, the Southern Province was probably more willing to share profit with Church members in order to attract membership. Other than reflecting the difference in the ownership arrangements, accounting records for both provinces were maintained essentially in the same manner.

THE NATURE OF MODERN BRANCH ACCOUNTING

The following description of modern branch accounting is provided as a basis for comparing the eighteenth century practices with modern branch accounting. A large firm may divide itself into separate reporting units for internal management purposes, using the separate statements of these units to provide information needed for decentralized decision making [Fischer, Taylor and Leer, 1990]. Typically, the home office will keep a perpetual record of its investment in a branch office. The investment account is increased by:

1. The original funds given to the branch to start operations,
2. Subsequent advances by the home office,
3. Billings for merchandise and other assets provided to the branch, and
4. Equity-method adjustments for income reported by the branch.

The branch usually accounts for its operations as if it were a separate entity. It records its own purchases, sales, asset acquisitions, and expenses. The branch closes operating income to the home office equity account, and the home office increases its investment-in-branch account by the amount of operating income. Some systems will allocate home office expenses to the various branches.

Antecedents of Branch Accounting

Historical references to the practice of branch accounting exist in both record and textbook form. Venetian banks in the fourteenth century maintained a form of branch accounting. One century later Paciolo [1494] devoted one chapter in his *Summa* (Chapter 23) to its description. However, these early references to "branches" are not unlike the bookkeeping methods maintained for multiple receivables in stores [Chatfield, 1977, p. 48].

The oldest known Venetian accounts are contained in two ledgers of Donaldo Soranzo and Brothers, merchants [Chatfield, 1977, pp. 36-37]. One of these (1410-1418) employs a partial double-entry system in which every debit has a credit and merchandise accounts are closed to profit and loss, but profit and loss accounts are not combined and transferred to capital. A complete double entry system is used in the second ledger. Both systems grapple rather unsuccessfully with the problem of coordinating home office and overseas venture accounts.

During the fifteenth century, Paciolo's treatise made its progress through the commercial world. According to Fogo [1968], the celebrated and historic treatises on bookkeeping are very numerous but not as pointed as accounts drawn from practice in tracing the development of accounting. The bookkeeping methods described by two early German authors appear to be less influenced by Italian teaching: Heinrich Schreiber, a native of Erfurt, who Latinized his name as Henricus Grammteus, and Johann Gottlieb, a merchant of Nuremberg. Gottlieb is by far the most successful of the two [Fogo, 1968, pp. 122-123]. He had the advantage of practical knowledge of his subject, and his textbook explanations are clear. As bookkeeping passed out of the experimental stage, it was daily experience, such as Gottlieb's in the counting-house, that initiated improvements.

The scholastic theory expressed in the early Italian treatises was soon surpassed by developments in practice. It is in the German Hanse towns that the best bookkeeping was found in the seventeenth century. Schurtz (Nuremberg, 1695) instructs by examples of time-honored books but adds in his textbook's preface that developments in the counting-houses are used with great success [Fogo, 1968, p. 142]. It is in Schurtz's work that a complete system, including closing entries and a final balance, is first encountered [Fogo, 1968, p. 143].

BRANCH ACCOUNTING IN THE MORAVIAN SETTLEMENTS IN 1775

The well-developed Moravian Church system probably resulted from many factors, including the Moravian sense of business and orderliness and penchant for detailed recordkeeping. It is therefore not surprising that one of the earliest developed branch accounting systems can trace its origins to German descendants utilizing the method in daily life. The Bethlehem archives contain a handwritten manual by Christian F. Oueter. The manual, written in Oueter's native German and later translated to English, describes the accounting practices in the Northern Province of the United States as being English in origin with some Italian influence. The records themselves bear out Oueter's declaration of origin.

The terms "Ballance" (Balance) and Folio (Account) in the Moravian ledgers derive from European influence. Both terms are defined by R. Colinson in *IDEA RATIONARIA*, the "True Forme of Bookkeeping According to the 'Italian' Methode," [1683]. Many of the physical characteristics follow the form prescribed by Colinson [1683], such as:

1. The large title on the top of each page accompanied only by the notation of the year (not month or day).
2. The debits and credits recorded separately on facing pages.
3. The division of each page horizontally into large and small areas to accommodate the size of the account, and
4. The cross-referencing of the folio when transporting information from the journal to the ledger.

Although earlier German accounting ledgers label the reference column by "Ch" for *Charta, Pagina*, by 1682, the term "Folio" was in use [Rademann, 1682]. The use of the description area to list the details of subtotals is also typical of this era [Hager, 1660] as is the use of the word "Ditto" or "Detto" in recording succeeding repetitive entries [Schurtz, 1662]. These recording practices have been transported and are evident in the Moravian records.

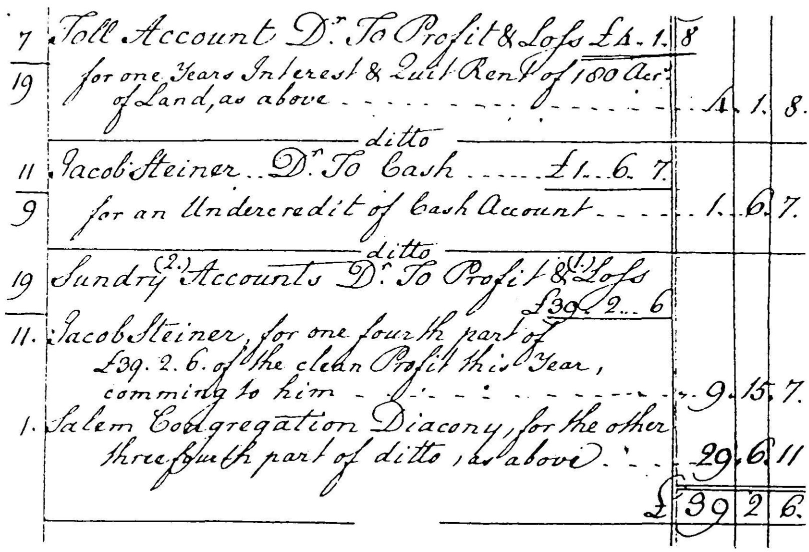
The transactions, of course, are valued in English currency, shillings, and pence. Debit and credit column headings are abbreviated simply as "Dr." and "Cr.," respectively.

The historic ledger for the Diacony of Wachovia is contained in a bound volume. Similar to the present day concept of "Branch Accounting," the ledger for the "home office" of the Diacony includes separate accounts for each of the typical operative enterprises. These separate accounts exhibit characteristics of branch accounts. "Folio No. 39" is used by the Diacony to record profit and loss for each of its branches. There is no evidence that the expenses of the home office are allocated to the enterprises, a practice sometimes applied in modern branch accounting.

The entries for the branch mill at Salem will serve as the beginning point for the illustration of the two-tiered system of branch accounting. The results of operation for 1775 for the mill will be traced through the ledger of the Diacony to the formal financial statement, prepared in German and submitted to the home office. Figure 1 is a section of a page from the journal for the Mill enterprise at Salem. Like other enterprises in the southern Moravian settlement, the mill owner shared the profit with the Church. The branch mill computed profit for the period ended April 1775 of £ 39.2.6. Three-fourths of this amount represented the Diacony's share (£ 29.6.11); one-fourth (£ 9.15.7) Mr. Steiner's, the proprietor.

Figure 1

Journal for Mill Below Salem (1773-1785)
Allocation of Profit, April 1775



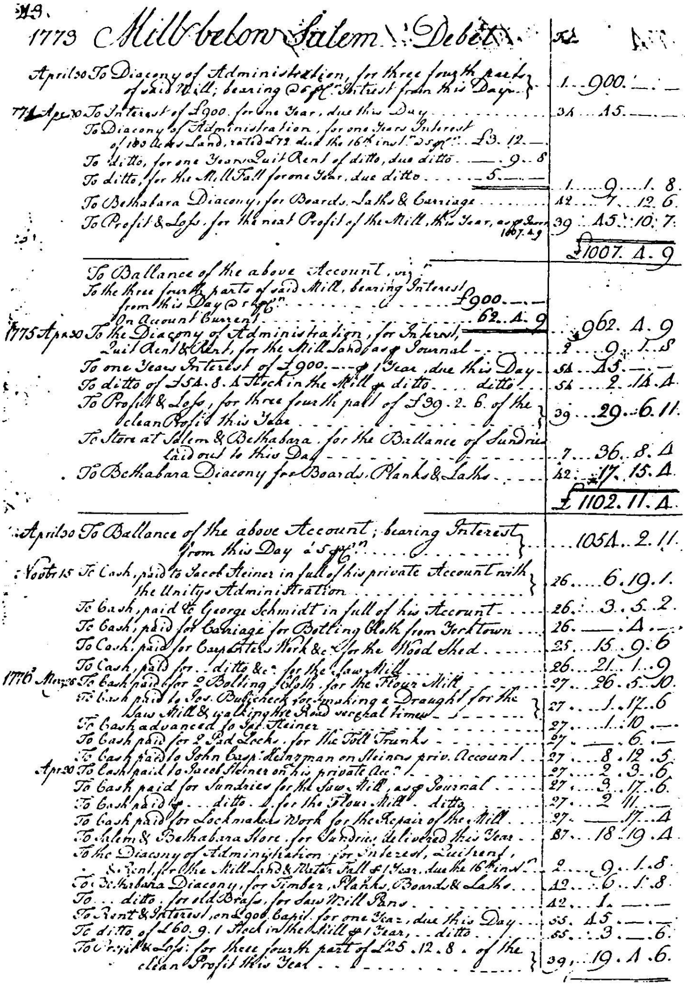
7/19	Toll Account Dr. To Profit & Loss £4.1.8 for one Years Interest & Quit Rent of 180 Acr. of Land, as above	4.	1.	8.
	ditto			
11/9	Jacob Steiner Dr. To Cash £1..6..7 for an Undercredit of Cash Account	1.	6.	7.
	ditto			
19/11.	Sundry (2.) Accounts Dr. To Profit & Loss (1.) £39.2..6 Jacob Steiner, for one fourth part of £39.2.6. of the clean Profit this Year, comming to him	9.	15.	7.
1.	Salem Congregation Diacony, for the other three fourth part of ditto, as above	29.	6.	11
	£	39	2	6.

C Moravian Archives Committee
Winston-Salem, North Carolina

Figure 2 is a page from the ledger for the Diacony which records the £ 29.6.11, the Diacony's three-quarter share of mill profit (fifth entry of second section).

Figure 2

Ledger for Salem Diacony (1772-1780) Mill Branch Account

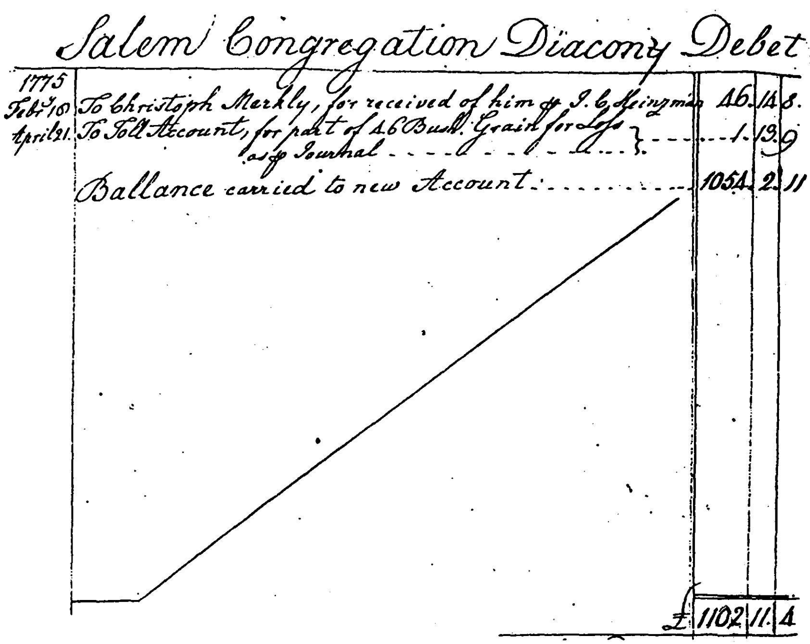


C Moravian Archives Committee
Winston-Salem, North Carolina

The Salem Diacony increases its asset accounts by the amount of profit reported by the mill branch. Going on to compute the "balanz" as recommended by Schurtz [1662], the Diacony computes a balance of £ 1054.2.11 (first entry in the third section of Figure 2). This same computation appears in the ledger for the mill in Figure 3.

Figure 3

Ledger (Debit Side) for the Mill Below Salem (1772-1790) Computation Identical in Ledger for the Diacony



Salem Congregation Diacony Debet

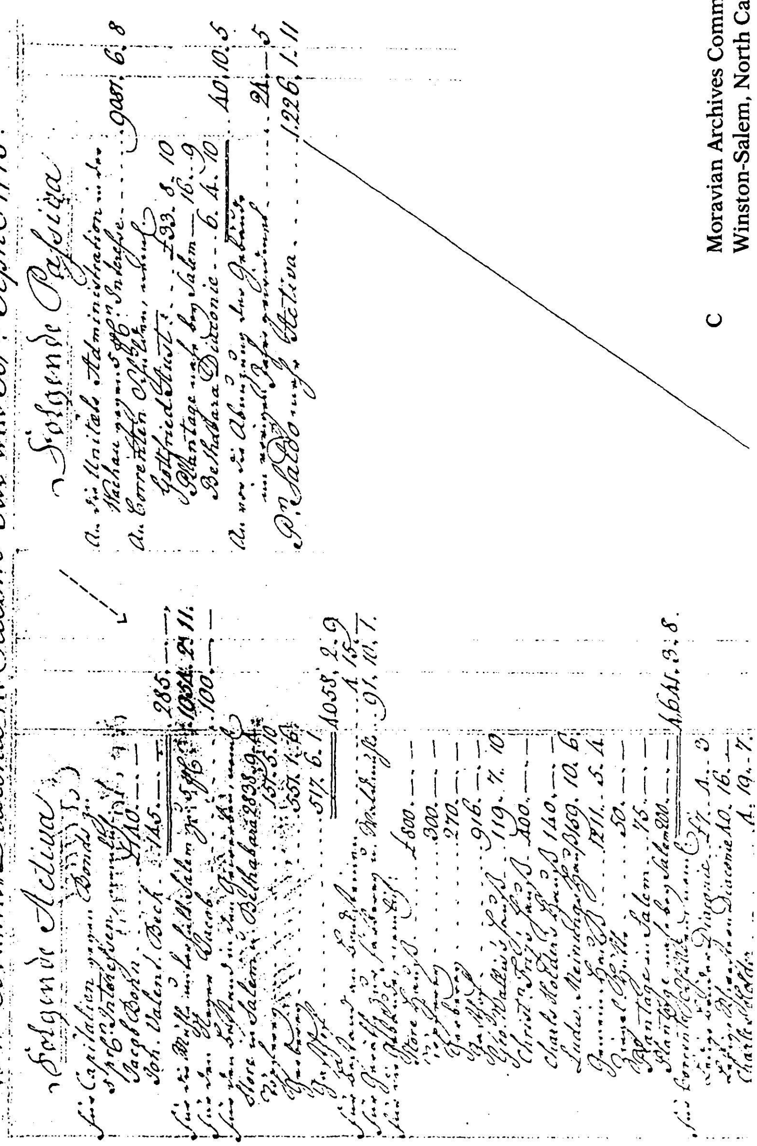
1775 Febr. 10	To Christoph Merkly, for received of him at J. C. Heinzman	46.	14.	8.
April 21.	To Toll Account, for part of 46 Bush. Grain for Loss as p Journal	1.	13.	9
	Ballance carried to new Account	1054.	2.	11
	£	1102.	11.	4

C Moravian Archives Committee
Winston-Salem, North Carolina

This balance of £ 1054.2.11 is reported as the second entry in the set of formal financial statements prepared in German "Die Gemein-Diaconie in Salem hat am 30 sten. April 1775," presented in Figure 4.

Figure 4

Die Gemein=Diaconie in Salem hat am 30 sten. April 1775, Formal Statement to Home Office


Die Gemein Diaconie in Salem hat am 30ten April 1775.

Folgende Activa

Folgende Passiva

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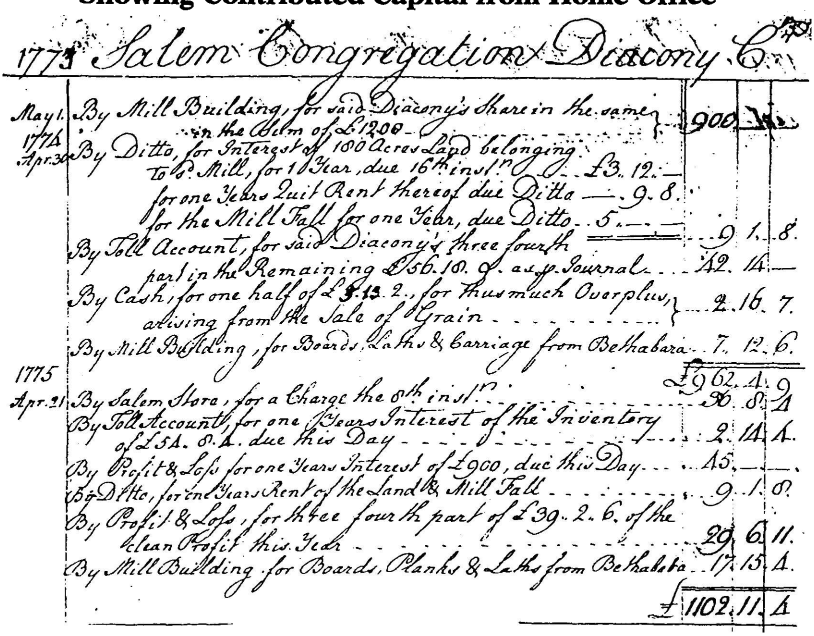
Winston-Salem, North Carolina

In addition to the above-described approach of equity-method adjustments for income reported by the mill branch, the ledger for the Salem Diacony (the Church business organization) records the original investment of 900 pounds by the branch in the home office as well as a charge for assets advanced to the branch, "planks and laths 17.15.4." (See Figure 2.) All four characteristics of modern branch accounting are therefore found in the Church records. The investment account has been debited for the following:

1. The original funds given to the branch by the home office to start operations (£ 900, Entry 1, Lines 1 and 2 in Figure 2). Providing an excellent example of reciprocity between accounts, the mill had credited its accounts for the 900 pounds advanced by the Diacony home office (£ 900, Line 1 in Figure 5).

Figure 5

Ledger (Credit Side) for the Mill Below Salem (1773-1785) Showing Contributed Capital from Home Office



1773 Salem Congregation Diacony Cr.

May 1.	By Mill Building, for said Diacony's Share in the same in the Sum of £1200	900
1774 Apr. 30	By Ditto, for Interest of 100 Acres Land belonging to sd. Mill, for 1 Year, due 16th inst. £3. 12. — for one Years Quit Rent thereof due Ditto — . 9. 8. for the Mill Fall for one Year, due Ditto . . 5. — . —	9. 1. 8.
	By Toll Account, for said Diacony's three fourth part in the Remaining £56. 10. as p. Journal	42. 14. —
	By Cash, for one half of £5. 13. 2., for thus much Overplus, arising from the Sale of Grain	2. 16. 7.
	By Mill Building, for Boards, Laths & Carriage from Bethabara	7. 12. 6.
		£962. 4. 9
1775 Apr. 21	By Salem Store, for a Charge the 8th inst.	36. 8. 4
	By Toll Account, for one Years Interest of the Inventory of £54. 8. 4. due this Day	2. 14. 4.
	By Profit & Loss for one Years Interest of £900, due this Day	45. — . —
	By Ditto, for one Years Rent of the Land & Mill Fall	9. 1. 8
	By Profit & Loss, for three fourth part of £39. 2. 6. of the clean Profit this Year	29. 6. 11.
	By Mill Building for Boards, Planks & Laths from Bethabara	17. 15. 4.
		£1102. 11. 4

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2. Billings for merchandise and other assets provided to the branch by the home office (£ 17.15.4 for planks and laths, Entry 12, Line 22, before second subtotal in Figure 2, and £ 62.4.9 as interest on the funds advanced).

3. Equity-method adjustments for income reported by the branch (£ 29.6.11, Entry 10, Lines 18 and 19 also in Figure 2).

SUMMARY

The Moravian accounting records included in this paper provide evidence of the well-developed systems that evolved in practice and were transported to the American colonies through European settlers. Specifically, evidence is provided that the Moravian settlers transported the practice of branch accounting to their settlements in the United States. The method reflects most of the current practices in modern branch accounting, including equity method adjustments.

It is also noteworthy that the Moravian practice was a global method of branch accounting. The Church used the method to account for its international operations. In North America, the systems used to account for the operations at Bethlehem, Pennsylvania, and Salem, North Carolina, were essentially the same. However, the economic system for the Southern Province frequently included incentives to attract membership.

Specifically, the majority of enterprises in the Southern Province were owned by members. The members paid interest on capital stock, house and ground rents, and a proportionate share of profit to the Diacony. The contributions of the various enterprises were determined at an annual meeting of the membership of the Board of the Diacony. Of the total profit of £ 39.2.6 from the Saw Mill operations at Salem for the year ended April 1775, Jacob Steiner, the proprietor received one-fourth of the profit (£ 9.15.7). The complement (three-fourth's paid to the Diacony) has been traced previously in Figures 1 through 5, providing an example of early branch accounting methods transported to the United States from Europe.

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THE ETHICS OF DISCLOSURE IN COMPANY FINANCIAL REPORTING IN THE UNITED KINGDOM 1925-1970

Abstract: Ethics is understood as the worthiness of the rights and needs for accounting information of contending groups in society. Company law is viewed as a means by which users of financial statements rights and needs have been redressed, and which users have relatively less important claims for information. The moral idealism of a true and fair view is being converted into impersonal disclosure laws which serve to provide, in the main, for the needs of shareholders.

INTRODUCTION

The theme of this paper is the role of mandatory public disclosure rules in removing the superior information of the issuers of financial statements (accounters). Specifically, company law is viewed as a means by which the users of financial statements (accountees') rights to know have been redressed.[1] A diverse and expanded set of accountees are now pressing their rights to know. Today the list includes shareholders, creditors,

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[1]Lev [January, 1988] argues that inequity in capital markets leads to adverse transaction costs, thin markets, low liquidity and in general decreased gains from trade. Lev contends that such adverse consequences can be mitigated by a public policy mandating the disclosure of financial information in order to reduce information asymmetries. This paper considers the needs of other users as well as capital market participants by engaging in ethical reflection on the growth in disclosure laws.

labor unions, government, consumers, local neighborhoods and the public in general [Accounting Standards Steering Committee, 1975]. The necessity for ordering the needs of these accountees according to perceptions of relative importance needs to be addressed. These interpersonal comparisons are what Devine calls "ethics" [1985, Vol III, p. 50, see also Beaver and Demski, 1974, p. 184; May and Sundem, 1976; American Accounting Association, 1977, p. 24; Ansari and McDonough, 1980, p. 139]. Devine argues that it is accountants' responsibility to be the "screening agents for weighing and coordinating interpersonal needs and conflicts" [p. 50].

In terms of the accountability relationship, the accountant and auditor come between the accounter and the accountees to "assure a smooth flow of the required information" [Ijiri, Summer 1983, p. 76]. The duty of the accountant and auditor, as embodied in the inherited structures of accountability, is to an ideal; namely, to provide "a true and fair view" [Companies Act of 1981, s. 149][2] of the information flow. The problem, however, is that the accountant's duty to the ideal of truth and fairness may not be to the accounter's advantage [Westra, April 1986]. Historically, the personal moral idealism of truth and fairness has been insufficient to check the egoistic impulses of powerful companies.[3] Hence, there has been a significant acceleration in minimum disclosure laws throughout the present century. The objective of this paper is to describe the struggle for the recognition of accountees' rights to know, and whose rights are relatively more important.

Plan of Study

The plan is to examine company law as a dimension that has contributed to (or repressed) accountees' rights to know. Successive Companies Acts form part of the discourse of truth and fairness. Indeed, as Carr puts it, "the process by which specific historical content is given to abstract moral conceptions is a historical process" [1962, p. 76].

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[2]J. G. Chastney [1975] sets out the changing configuration of ideals embodied in successive Companies Acts and discusses the meaning of the various terms which have been used.

[3]Cf. W. R. Kennedy's "The Auditor's Song". "I am the very model of a modern business auditor. I represent the quest for truth no corporation can deter. I poke my nose in every book and pose my questions quizzical" [1983, p. 22].

This historical process can also be seen to be shaped within relations of power [Gordon, 1980]. Powerful industrialists and professional and trade associations made representations to Company Law Amendment Committees which preceded the passage of the Companies Acts during the period covered by this study. Hence, it is pertinent to raise the question of the extent to which disclosure laws may be sustaining and legitimizing powerful economic and political groups, while disenfranchising the rights to know of others [Cooper, 1980, p. 164; Cooper and Sherer, 1984, p. 225; Willmott, 1986, p. 561; Richardson, 1987, p. 351].

The identification and ordering of accountees has been generated in an inductive manner using primary and secondary source materials. Primary source documents include successive British Companies Acts along with the Company Law Amendment Committees that immediately preceded the passage of the legislation.[4] These sources constitute the principal evidential data for weighing the relative importance of the accountees. Secondary sources consulted included relevant articles from the periodical literature in accounting.[5]

Time Period

The minimum disclosure philosophy was first introduced in the Companies Act of 1907, but was not significantly developed until the Companies Act of 1929. A Company Law Amendment Committee was appointed in 1925 to undertake a full review of the working of the Companies Act then in force. The Committee reported in 1926, and its report formed the basis for the reforms of the Companies Acts 1928/29. The accounter's right to privacy received little opposition prior to this date. It has only been over the last half century that there has been a gradual evolution towards disclosure. Since the Act of 1929, there have been three major enactments in 1947, 1967 and 1981 which have further developed the theme of minimum disclosure. The Act of 1981, however, was not preceded by a Company Law Amendment Committee. It was driven by the harmonizing provisions of the

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[4]Excerpts from these Acts and Reports along with some of the evidence before the Committees has been brought together very helpfully in two volumes by Edwards [1980]. Extensive use was made of this material.

[5]Especially helpful in this regard was the collection by Lee and Parker [1979].

4th EC Directive on company law. Hence, the 1981 Act has been omitted from consideration. Moreover, 1970 saw the advent of the accounting standards setting program developed by the British accounting profession and thus marked the end of an era in which major reliance was placed on companies' legislation in raising the standards of company financial reporting and disclosure.

The rest of the paper is organized along chronological lines. A section is devoted to each of the major revisions of company law, which took place in 1928/29, 1947/48 and 1967. The concluding section offers an interpretation of the data used in the study and emphasizes the relevance of the findings to contemporary education, policy and research issues.

THE CULT OF PRIVACY

The Growing Obscurity of Financial Reports

Edwards [1979, p. 278] reports that in the years up to 1925 accounting information was becoming less informative. Further support for this view comes from Kitchen [1979, p. 98] and Edey [1979, pp. 226-7]. Both Edwards [1979, pp. 278-9], and Kitchen [1979, p. 118] point out that secrecy in financial reporting may well have reflected the difficult conditions facing directors in the 1920s. Kitchen notes that "to many of them, to increase disclosure seemed tantamount to inviting more criticism — at the least more questions, and many had had their fill of inquiries." Edwards observes that an explanation of the obscure reporting practices of some managers lay in their belief that the decline in demand for their products was of a temporary character and would revive with the imminent up-turn in the trading cycle [p. 279].

In these particular circumstances, the accounters' moral position may have been act-utilitarian;[6] namely, that "it can never be right to act on the rule of telling the truth if we have good independent grounds for thinking that it would be for the greatest general good not to tell the truth" [Frankena, 1963, p. 30].

[6]"Act-utilitarians hold that in general, or at least where it is practicable, one is to tell what is right or obligatory by appealing directly to the principle of utility or, in other words, by trying to see which of the actions open to him will or is likely to produce the greatest balance of good over evil in the universe" [Frankena, 1963, p. 30].

Public disclosure of poor performance may precipitate the failure of the company with consequent loss to the investing public and the workforce.

Greene Committee

The Greene Committee on Company Law Amendment, which sat in 1925, circulated among some 44 individuals and institutions, including the Co-operative Congress and the Trades Union Congress, for their views on the existing state of company law. Edwards [1980, p. xvi] reports that 39 submissions were made to the Committee including both written and oral evidence from the Co-operative Congress, but no submission was received from the Trades Union Congress. Accountancy bodies made representations to the Greene Committee for the first time in the long history of company reform (dating back to 1867).

At the time, accepted conventions "left a fairly wide area of accounting discretion to company management and auditors" [Yamey, 1979, p. 237]. In practice, the exercise of accounting discretion .... was conditioned *in general* by an approved bias towards 'conservatism' " [p. 237]. But, as Yamey observes, the creation of secret reserves "went well beyond the caution of this ordinary conservatism" [p. 237]. Edwards [1979, p. 280] notes that overall secret reserves received approval from those witnesses who gave evidence. Mr. F. Whinney felt that shareholders might be entitled to know of their existence although not the details relating to them [Edwards, 1980, Vol. II, p. 101]. Both the Law Society [Edwards, 1980, Vol. II, p. 102] and the Institute of Chartered Accountants [Edwards, 1980 Vol. II, p. 120] took the view that a balance sheet prepared to give full protection to creditors would give away information to competitors. The giving of an "externality" to competitors is a theme which runs throughout the period reviewed here. Both institutions contended that the remedy for shareholders was to ask questions at the annual meeting. As Garnsey [1922] observed, "shareholders as a rule are quick to appreciate the dangers attending a too full statement of the affairs of their company and rely to an almost unlimited extent upon the advice tendered to them by their Board" [quoted in Kitchen, 1979, p. 94]. This accepts the "necessity" of the shareholders' welfare being given overriding consideration in determining the greatest balance of good over evil [Edwards, 1979, p. 277].

As far as creditors are concerned, both the Law Society and the Institute took the view [Edwards, 1980, Vol. II, p. 102 and p. 120] that creditors' means of protection was largely in their own hands — they must pursue their own inquiries. Both submissions asserted that creditors could obtain as much information about the financial position of a company as they could about that of an individual. Both concluded "It is impossible by legislation to protect fools from their own folly" [Edwards, 1980, Vol. II, p. 102, and p. 120].

The Greene Committee appears to have accepted the view that additional disclosures should be kept to an absolute minimum. The Committee argued that it would be "most undesirable, in order to defeat an occasional wrong doer, to impose restrictions which would seriously hamper the activities of honest men and would inevitably re-act upon the commerce and prosperity of the country" [Edwards, 1980, Vol. II, p. 79]. The Committee appealed to the concept of utility. The system of limited liability leaves opportunity for abuse, but these costs are outweighed by the benefits to trade and industry. The report did include proposals for minimum disclosure in the balance sheet. The report also recommended that the balance sheet and the profit and loss account be presented to the members at each annual meeting, and the former document be circulated to the members prior to the meeting. It was further recommended that a copy of the last audited balance sheet be filed annually with the Registrar of Companies [Edwards, 1979, p. 281].

Companies Act of 1928

The Companies Act followed the recommendations made by the Greene Committee in connection with accounting matters. It included requirements for companies to distinguish between the amounts of fixed assets and floating assets, to show balances for several named intangible assets and to provide a small amount of information concerning subsidiary companies. Moreover, the Act required, for the first time, that directors were responsible for circulating the accounts to members prior to the annual general meeting. Section 39(4) also called for a directors' report to be attached to the balance sheet. A "real advance" [Edey, 1979, p. 228] was the requirement to present a profit and loss account (which need not be audited) to those shareholders in attendance at the annual meeting. Sections 6(d) and 39(4) made it clear that only the balance sheet and the directors' report presented to the company at a general meeting need to be filed with the Registrar. This innovation illustrates a continuing "preoccupation with the shareholder group" [Edwards, 1980, Vol. I, p. xvi]. Presumably, the profit and loss account was not required to be filed with the Registrar because it was thought to give an unfair advantage to a competitor.

In this period, disclosure is viewed as an intramural problem of the directors and the shareholders. To give shareholders greater rights to know would result in benefit to competitors. Moreover, enforced disclosure in the difficult economic conditions facing directors in the 1920s may have precipitated the collapse of the company with consequent loss to the general public and the work force. It was not until 1931 that management's right to privacy was seriously challenged in the *Royal Mail* case.

THE *ROYAL MAIL* CASE

Edwards observes that in the months following the introduction of the 1929 Act there was a general improvement in reporting practices particularly on the assets side of the balance sheet [1979, p. 284]. Nevertheless, profit manipulation and the maintenance of secret reserves persisted. Edwards states "it is fairly clear that where the Act placed some specific obligation on directors, this was complied with. Where no such obligation was imposed, information did not gratuitously emerge" [p. 285].

This aroused accountants and others to criticize the value of the audit function. The auditor had been required since the Act of 1900 to report on the *truth and correctness* of the accounts. The most well known failure of the auditor to fulfill that duty occurred in the *Royal Mail* case [Brooks, 1933]. Briefly, Lord Kylsant, chairman of the shipping line, and the company's auditor, H. J. Morland, were accused of deliberately misleading shareholders as to the true state of the company's financial position. The line had been doing badly since 1921; and from 1926, Kylsant, with the knowledge of the auditor, had been transferring large sums out of excess tax provisions and non-recurring items of revenue to help pay dividends. Neither the transfers from reserves nor the company's true trading losses were disclosed in the annual accounts. The only notice given to shareholders that the profit had been derived from the utilization of secret reserves were the words "including adjustment of taxation reserves" inserted in the balance sheet by Morland.

Morland was acquitted on a charge of dishonesty because he had merely adopted a customary practice. It is interesting that the company had published information concerning profitability in the early years of the century despite the absence of any company law requirements, but in common with those of other hard pressed firms, the accounts gradually revealed less and less [Edwards, 1979, p. 288]. It was this case, more than any other single event, that secured the shareholders' rights to a candid disclosure of profits.

The correlative duty on management not to hide information is implied in the special relationship which management has with its shareholders. Managers are the agents of the shareholders and promise to represent the interests of the shareholders and to appraise them of their progress in this regard. This is a deontological justification for disclosure.[7] Edwards reflects the shift that was taking place: "It is preferable to alarm one's shareholders by frank disclosure of the financial position than to keep them in a fool's paradise until it is too late for a remedy to be possible" [Edwards, 1979, p. 290].

It is interesting that the Institute of Chartered Accountants in England and Wales (ICAEW) continued to call for reform to be effected "through the influence of individual members and that there was no need for further legislation" [quoted by Kitchen and Parker, 1980, p. 77]. The Institute felt, on the one hand, that general pronouncements could easily be circumvented or misapplied, while on the other hand, detailed pronouncements were impracticable because of the diversity of business situations. By contrast, the Society of Incorporated Accountants argued that it was "unreasonable to expect the auditor to progress beyond the minimum requirements laid down by the law; these were regarded as constituting an effective limit on his powers" [Edwards, 1979, p. 290].

It took another decade, however, before it was realized that an increase in moral goodwill was not sufficient to offer shareholders protection of their rights. Zeff records that there was still much dissatisfaction in the late 1930s and early 1940s with accounting practices. It was following a series of articles published in *The Economist* in 1942 concerning the inadequacies of

[7]Deontologists "assert that there are . . . other considerations which make an action or rule right or obligatory besides the goodness or badness of its consequences — certain features of the act itself other than the *value* it brings into existence . . . " [Frankena, 1963, p. 14].

published accounts, that the ICAEW changed its attitude to one of issuing recommendations on best practice to members [Zeff, 1972, p. 10].

UTMOST PUBLICITY

An Expansion in Number of Accountees

The early recommendations of the ICAEW formed the basis of the sweeping reforms in the accounting requirements which were recommended by the Cohen Committee on Company Law Amendment in a report published in 1945. The terms of reference given to the Committee included an obligation to review the "safeguards afforded for investors and for the public interest" [Edwards, 1980, Vol. II, p. 128]. As Edwards observes, formal recognition of the public interest indicates the extent to which official attitudes had changed during the time since the Greene Committee. This can be seen as a reflection of the changes in social attitudes stimulated by the war [Bircher, Spring 1988, p. 117].

In keeping with the call for social justice and a more equitable distribution of income and wealth, it was argued by representatives of *The Economist* [Edwards, 1980, Vol. II, p. 181] and the Trades Union Congress (TUC) [Edwards, 1980, Vol. II, p. 212], which was making a submission to a Company Law Amendment Committee for the first time, that some standards for accounting information were necessary now that financial reports were serving a wider audience.

The TUC appealed to the public interest or general utility in its submissions. It contended that the public's and workers' rights to know should outweigh any competitive disadvantage suffered by the company [Edwards, 1980, Vol. II, p. 207]. In response to the suggestion that publication of information about reserves would lead to a dog fight between management and the unions, the TUC representatives stated that it was not in their interests to raid the reserves if it was going to put the company on the rocks [Edwards, 1980, Vol. II, p. 208]. TUC representatives argued that dissemination of more information would improve confidence and understanding between labor and capital [p. 207].

The Association of Certified and Corporate Accountants drew the Committee's attention to the changed position of shareholders since the Greene Committee met. Instead of being a responsible proprietorship, shareholders were mere dividend recipients, or investors seeking capital accretion. They argued that the controlling and functioning of companies now resided, in a vast majority of cases, with the directors and that there was a need to ensure that the directors (and shareholders) "shall not be able to conduct the business of a company as to secure for their interests a priority position as against the interests of others" [Edwards, 1980, Vol. II, p. 192, see also Pollard, 1969, p. 163 and Hannah, 1983, p. 27].[8]

Several submissions pointed out that the phrase a "true and correct view" was becoming "distorted by secret reserves" [Edwards, 1980, Vol. II, p. 181 (*The Economist*), p. 197, (de Paula)]. The Association of Certified Accountants, in their submission, set out in some detail a number of specified items which should be disclosed in order for accounts to exhibit a true and correct view [Edwards, 1980, Vol. II, p. 193]. The Association also drew attention to the auditors' lack of independence. They noted that it is not infrequent for auditors, conceiving it their duty to draw attention to some particular feature in the accounts, to find themselves at variance with the directors and lose their appointment [Edwards, 1980, Vol. II, p. 193].

Cohen Committee

Whereas "confidentiality" had been the watchword of the Greene Committee, "fullest practicable disclosure" was the objective identified by the Cohen Committee [Edwards, 1980, Vol. I. p. xvi]. This illustrates the change which had taken place in attitudes to disclosure. The Committee considered that utmost publicity would reduce the opportunities for abuse and accord with a wakening social consciousness [Edwards, 1980, Vol. II, p. 130]. The report argued that the hands of the auditor would be strengthened if the law were to prescribe a minimum amount of information to be disclosed in all balance sheets and profit and loss accounts [Edwards, 1980, Vol. II, p. 131 and p. 137]. The Committee recommended that audits be conducted by fully qualified accountants. It suggested that auditors' independence be strengthened by disqualifying an employee of a company or an employee or partner of a director from being its auditor. As

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[8]This argument parallels those put forth by Berle and Means [1932] across the Atlantic, in which the authors suggest that the new concentrations of corporate power must now "serve not alone the owners or the control, but all society." [1967, p. 312].

Willmott [1986, p. 560] points out "to maintain their position within the prevailing structure of power relations, the officers of professional bodies are obliged to gain the recognition and confidence not only of clients but also, and crucially, of the state." Other recommendations included giving the auditors the right to attend all general meetings (not just those general meetings where accounts are discussed), and the right, if other auditors have been nominated, or if there is a proposal that they should not be reappointed, to put their views before the shareholders orally at the meeting and in writing prior to the meeting. [Edwards, 1980, Vol. II, pp. 148-150].

One final matter worth noting about the Cohen Report is that the Committee considered the profit and loss account "as important as, if not more important than, the balance sheet, since the trend of profits is the best indication of the prosperity of the company and the value of the assets depends largely on the maintenance of the business as a going concern" [Edwards, 1980, Vol. II. p. 137]. In keeping with this, the Committee sought to bring the profit and loss account within the purview of the auditors' report. This no doubt accorded with the growing number of absentee owners wishing to evaluate the performance of the company and to assess how much of the profit was available for distribution as dividends.

Companies Act of 1947

The Companies Act of 1947 was based largely on the extensive recommendations of the Cohen Committee. It required auditors to report whether the accounts were *true and fair* rather than *true and correct.* The replacement of the word *correct* by *fair* was at the suggestion of the English Institute [Edwards, 1980, Vol. II, p. 167]. The Act prescribed specific disclosures which it regarded as the minimum necessary for the purpose of attaining a true and fair view. However, the Act made it clear that true and fair was an overriding requirement. This considerably expanded the concept of minimum disclosure.

The influence of the *Royal Mail* case on the legislation was obvious: among other things, the Act called for full disclosure of all reserves and movements therein, the reporting on the profit and loss account by the auditor, the adequate classification of accounts, the introduction of special requirements for holding companies, and the disclosure of further details in prospectuses. Other important extensions of the law were that both the balance sheet and the profit and loss account had to be filed with the Register, and private companies no longer enjoyed immunity from the obligation to file accounts. In addition, the auditor now had to be a member of a professional body. However, as Willmott [1986, p. 565] points out, the price exacted by the State for the sanctioning of market shelters for professional groups was the "reliable production and delivery of relevant and consistent knowledge and skill".

It was now clear that no longer could the auditor rely on his own experience and strength of character in any contest with the directors. Statutory support was necessary to restore a measure of trust in the moral capacities of the accounters and to encourage an expansion rather than contraction of these capacities [cf. Niebuhr, 1932, p. 272]. The consequent impact on the quality of financial reporting "was little short of tremendous" [quoted in Zeff, 1972, p. 13]. "The justice which results from such a process may not belong in the category of morally created social values, if morality be defined purely from the perspective of the individual. From the viewpoint of society itself it does represent a moral achievement" [Niebuhr, 1932, p. 31-32].

In sum, it took the *Royal Mail* case (1933) to bring about a greater recognition of shareholders' rights to know. With the divorce of ownership from control, managers had a moral duty (reflecting a deontological approach) to appraise shareholders of their progress. Also, it took the war and the awakening social consciousness that it brought to bring about a recognition of the public's rights to know.

GREATER PUBLIC ACCOUNTABILITY

Responsibilities to Investors and the Work Force

The Report of the Company Law Committee under the Chairmanship of Lord Jenkins was presented to Parliament in June 1962. The range of interested parties giving oral evidence before the Committee had extended to include among others, The Society of Investment Analysts Limited, The Institute of Directors, The Institute of Actuaries, The Association of Unit Trust Managers, The British Overseas Banks Association, The Association of International Accountants Limited, The Faculty of Advocates, and accounting academics.

The question of the competitive disadvantage of disclosure was once again discussed. Professor Baxter argued that the public interest (general utility) should override the interests of shareholders in this regard [Edwards, 1980, Vol. II, p. 294]. Baxter argued that "the more economic information there is the more prosperous we shall be." In his view, the only objectionable thing "would be if for some reason Competitor A could limit the knowledge available to Competitors B and C; we are saying the thing should be published to the whole world" [Edwards, 1980, Vol. II, p. 297].[9] In his memorandum to the Committee, Baxter developed the case for full disclosure.

> In a free economy, resources are guided to their most fruitful uses (in the main) by the decisions of individuals. If the economy is to work efficiently, these decisions must be based on adequate information. Investors should have available the fullest and clearest data on the working of the various sectors. Guided by such data, they will put new resources into sectors where likely returns are highest — thus helping to give the consumer what he wants, and to reduce abnormally high profit rates to the competitive level. The society that fails to provide itself with the best available information is wasting resources, and keeping its income needlessly low . . . [Edwards, 1980, Vol. II, p. 298].

Similar sentiments were expressed by the Society of Investment Analysts [Edwards, 1980, Vol. II, p. 316 and p. 320]. This, of course, raises the "public good/free rider" problem. While investment analysts get information "free", others such as owners, employees, or consumers must bear the costs of producing the information through smaller dividends, lower wages, or the payment of higher prices, respectively.

The Trades Union Congress once more drew attention to the priority of the public's right to know over the shareholders. [Edwards, 1980, Vol. II, p. 346]. The TUC posed the question for the committee: "What are the respective rights of the public and the companies?" It focused its remarks on the need for product line reporting arguing that they were disadvantaged in negotiations by not knowing the profitability of particular products.

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[9]Professor Bell has argued recently that "if disclosure costs are negligible. . .but disclosure improves the long run efficiency in the economy overall, then a case can be made for mandating disclosure even where the entity making the disclosure seems to be hurt, competitively, in the process. The disclosing entity benefits from externalities when other entities disclose. And it will have benefited from 'first use' of its cost cutting measure or measures." [1989, p. 61].

The TUC lamented that the information useful to employees was really only a by-product of information published for shareholders. It then argued for reports specifically pitched at employees to enable workers to form a view of the company. However, these reports did not eventuate until later in the nineteen seventies [see Burchell, Clubb, and Hopwood, 1985, p. 398]. Presumably, knowing that a company has a substantial profit on a particular product should also lead to new investment, perhaps by competitors in that product.

Jenkins Committee

The Jenkins Report repeated the views expressed by the Greene and Cohen Committees as to the undesirability of imposing restrictions which would seriously hamper the activities of honest men in order to defeat an occasional wrongdoer [Edwards, 1980, Vol. II, p. 219]. In considering the trend toward additional disclosures, however, the Committee posed the question of the value of the information to the persons receiving it, and whether its ascertainment would involve an amount of work disproportionate to its value or whether publication might be detrimental to the company's business, and thus indirectly detrimental to its shareholders and creditors [Edwards, 1980, Vol. II, p. 219].

The Committee argued for greater disclosure of information about subsidiaries, directors' compensation, and in the directors' report, information on the activities of the company including the difference between the current market value of the fixed assets and their book values. In the balance sheet, the Committee recommended the following disclosures: the aggregate amount of fixed assets acquired or disposed of or destroyed during the year, the basis of valuation of inventories, and the aggregate amount of the company's quoted and unquoted investments. Land was to be subdivided among freehold, long leasehold or short leasehold. Where fixed assets were shown at valuation — the name of the valuers, their qualifications and the basis of valuation. In the profit and loss account, turnover was to be disclosed and the method of calculation for the year stated. Income from quoted and unquoted investments was to be shown separately.

The Committee also recommended the abolition of the exempt private company in order to protect those who trade and extend credit to such companies [Edwards, 1980, Vol. II, p.

223]. The exempt private company had been introduced by the 1947 Act to make available to the one owner or family-owned company the advantages of trading as an incorporated company without requiring from it the disclosure of information.

Companies Act of 1967

The Companies Act of 1967 made it mandatory for all companies incorporated with the privilege of limited liability to file accounts with the Registrar, including an auditors' report and the directors' report. Thus, the new Act meant that businessmen formerly using the exempt private company had to decide between the value of maintaining the right of privacy as to their financial affairs, compared with the privilege of trading with limited liability.

The Act accelerated the trend, evident in the earlier legislation examined, of greater public accountability. Nearly all the proposals of the Jenkins Committee relating to disclosure were implemented. Some provisions of the Act may be attributable to the case presented to the Jenkins Committee by the TUC for disclosure of information of interest to Unions and employees and also as a basis for public policy.

CONCLUSIONS

In the 1920s, disclosure was viewed as a matter of *internal management* to be determined by the articles and the decisions of the directors and members. This *laissez faire* attitude was underpinned by the belief that the greatest possible freedom should be allowed to those responsible for the management of companies. Professional bodies, making representations before the Greene Committee, felt that compulsory disclosure was not desirable, rather they appealed to the mechanism of shareholders' democracy at the annual meeting of the company. The English Institute took the view that it was "impossible by legislation to protect fools from their own folly". Two other factors appear to have been influential. First, secrecy would prevent any advantage accruing to competitors, and second, privacy may also enable the company to weather any temporary setback in the demand for its products. The cult of privacy could be justified on utilitarian grounds, which, as Garnsey notes, shareholders were quick to appreciate, assuming the "givens" of their viewpoint.

The *Royal Mail* case showed how management could use its control over information in annual accounts in a manner which can misrepresent company performance. The case established shareholders' right to candid disclosure of company performance. The correlative duty on management not to conceal information is implied in the fiduciary relationship which management has with its shareholders. The emphasis on rights-based, deontological theories was given further impetus by the war. In particular, it was argued that a directorship should be a species of moral trusteeship, towards the British nation [quoted by Bircher, 1988, p. 117]. No longer was disclosure an intramural affair of the directors and the members of the company. It was recognized that the law must protect the rights of outsiders and that some standards in the presentation of this information were necessary. As the TUC representatives contended before the Cohen Committee in 1944, workers are entitled to know the facts underlying the calculation of wages. Secrecy and secret reserves were contributing to suspicion and a lack of confidence. With the control of companies increasingly in the hands of professional managers, it was argued that the law should protect the investor, the outside creditor, and the general public. The English Institute, which had earlier opposed compulsory disclosure legislation, now strongly advocated it. This may be understood to have enabled them to extract from the government a license for the control of the supply of professional workers to the market. The Institute's recommendations became the basis of sweeping reforms put forward by the Cohen Committee and subsequently enacted in companies legislation in 1947. The legislation greatly strengthened the auditor's position by prescribing a minimum of information to be disclosed in all balance sheets and profit and loss accounts. This increased the credibility of financial reports.

A further increase in the number of organizations and persons concerned with accounting results is apparent from the list of those giving evidence before the Jenkins Committee in 1960-1961. A leading academic, Professor W. T. Baxter, argued the case for disclosure on the grounds of its role in the efficient allocation of capital for investment. The TUC pressed its call for more equitable returns for labor based on a break down of profit figures for product lines. The TUC requested reports specifically tailored to enable workers to form a view of the company. These extensions of disclosure were justified in utilitarian terms as information which would be in the interests of the public at large [Edwards, 1980, Vol. II, p. 336] accepting the necessities of the employee viewpoint. Some provisions of the Companies Act of 1967 can be attributed to these submissions, for example, s. 17 of the Act required the Directors' report to disclose the turnover and profitability of classes of business where these differ substantially from each other.

These reforms have been the only sure means of inducing a true and fair view. However, shareholders have been the dominant group whose interests were being served. It was not until 1980 that the Companies Act laid an obligation on directors to consider the interests of employees "as well as the interests of its members."

The relevance of this study to two contemporary problems will be considered briefly. The first is education. Successive Companies Acts have spelled out with increasing specificity the information necessary for attaining a true and fair view. The difficulty with this approach is that the disclosure laws came to be seen as autonomous from the morality of truth and fairness. Although Benson (later Lord) said in evidence before the Jenkins Committee in 1961 that true and fair has become "ingrained in the profession" [Edwards, 1980, Vol. II, p. 366], values such as these must be actively protected from erosion [Demant, 1952, p. 115]. Today truth and fairness are regarded as problematic [Rutherford, 1985, Puxty et al., 1987, p. 285; Willmott, 1986, pp. 575-6]. As Frankena warned "principles without traits are impotent" [1963, p. 53], and "having a moral ideal is wanting to be a person of a certain sort, having certain traits of character rather than others" [p. 54]. Educators therefore need to rediscover the ethics of character or virtue, a type of ethics that places primacy on the formation of the moral self [Hauerwas, 1974].

The second issue is policy making. Both shareholders and employees have appealed to deontological and utilitarian theories. Each assumes that moral conflict can be resolved by a single fundamental principle. The assumption underlying the capitalist-utilitarian ideal, for instance, is that the common good equals the greatest sum of individual satisfaction. The policy formed on this basis must therefore be the result of a coalescence of self interest. Puxty *et al.* [1987, p. 275], highlight the hardiness of *laissez faire* ideology and the significance of the City of London as a world financial center in explaining the regulation which emerged. The authors suggest that the market principle of dispersed competition through economic entrepreneurship and calculative rationality is predominant.

The problem is that justice in utilitarian terms is conceived only as a procedural requirement. The demand of the *common good* is to seek, form and maintain a rational community (not just a harmonizing of interests) [Hauerwas, 1974, p. 237]. To formulate and envision such a good and make it efficacious for all accountees remains the challenge which faces policy makers and researchers alike [Willmott, 1986, p. 574].

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THE CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY: AN EXAMINATION OF CONTINGENT LIABILITIES OF 1903-1904

Abstract: The issue about disclosing contingent losses arising from lawsuits has been an accounting problem for decades. Prior to 1953, there was no mandate for recording or disclosing such contingencies. In this study, the 307 court cases brought against the Chicago, Rock Island and Pacific Railroad Company during 1903 and 1904 are analyzed to determine the impact of nondisclosure in the annual reports. Despite thirty-nine of these cases involved deaths and fifty concerned injuries to employees or passengers, the simple dollar amount of total litigation does not meet a threshold of materiality. Under current reporting requirements, however, some of these cases would have been disclosed. From the relative size of the amounts in dispute, it does not appear that nondisclosure of contingent losses from lawsuits were significant enough to mislead investors.

INTRODUCTION

It has long been understood that accounting treatment of contingent liabilities could substantially impact the financial position of a business enterprise and directly affect decisions of financial information users. The accounting profession has provided a framework for the recognition of contingencies. In 1975, the Financial Accounting Standards Board issued *Statement Number 5* which establishes procedures for accounting for such contingencies. The Statement defines a contingent liability as

> an existing condition, situation, or set of circumstances involving uncertainty as to . . . possible . . . loss . . . to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of

the uncertainty may confirm the . . . incurrence of a liability (page 2).

Prior to *Statement 5*, the Committee on Accounting Procedure issued *ARB 43* [1953] which updated previous work (1947) that provided the first authoritative source recommending accounting treatment for contingent liabilities. Before the work of the Committee on Accounting Procedure, there had been no definitive guidelines recommending accounting treatment for contingent liabilities. Business enterprises followed a wide array of methods of accounting for such obligations. Paton [1923, page 623] actually discouraged the accrual of contingencies by stating "Contingent liabilities should not be added to outright obligations on the face of the balance sheet." Prior to 1953, many enterprises simply did not disclose or accrue contingent liabilities as a part of their overall financial position. Therefore, financial statement users made decisions based upon less than complete and, possibly, inaccurate financial data.

THE PURPOSE OF THE STUDY

The purpose of this study was to identify the contingent liabilities of the Chicago, Rock Island and Pacific Railroad Company (the Company) for the years 1903 and 1904. In addition, the impact that these contingent liabilities would have had on the financial position of the company was determined. The data for this analysis was obtained directly from the general counsel's docket of the Chicago, Rock Island and Pacific Railroad Company. The docket was obtained at a private sale in St. Louis, Missouri in 1990 after the liquidation of the Company in 1985.

The docket contains a complete description of 307 court cases brought against the Chicago, Rock Island and Pacific Railroad Company for the years 1903 and 1904. Each case entry in the docket provides a complete narrative of the issues, motions, and actions of the case, monetary amounts demanded, and the outcome of each case.

This study examined the effects of the contingent liabilities of the Company if they had been disclosed in the financial statements. Thus, the null hypothesis formulated for this study was:

Ho: The contingencies of the Chicago, Rock Island and Pacific Railroad Company of 1903-1904 would have had a material effect on the financial position of the company if the contingencies had been fully disclosed in the financial statements.

HISTORY OF CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY

The Chicago, Rock Island and Pacific Railroad Company, originally named the Rock Island and LaSalle Railroad Company, was incorporated on February 27, 1847 by act of the General Assembly of the State of Illinois. The Company's original lines were constructed across the Mississippi River from Rock Island, Illinois to Davenport, Iowa.

In 1866, the Chicago, Rock Island and Pacific Railroad Company was incorporated in the state of Iowa for the purpose of acquiring the properties of the Mississippi and Missouri Railroad Company. That same year, the Chicago, Rock Island and Pacific Railroad Company (in Iowa) and the Chicago, Rock Island and Pacific Railroad Company (in Illinois) merged into the Chicago, Rock Island and Pacific Railroad Company. As a result of the merger, the lines of the company ran from Chicago, Illinois to Council Bluffs, Iowa. By 1869, the Company had extended its lines to Omaha, Nebraska [Moody's, page 883].

A major expansion for the company occurred in 1880 when the Chicago, Rock Island and Pacific acquired the Iowa Southern and Missouri Southern systems. After the expansion, the Company owned and operated some 1,380 miles of lines which connected two Missouri River points with Chicago as well as a line from Keokuk to Des Moines, Iowa.

In 1886, the company entered into a lease arrangement with the Chicago, Kansas and Nebraska Railroad. Under the agreement, the Chicago, Rock Island and Pacific would finance the construction of lines connecting Chicago with points in Kansas and Nebraska. A subsequent default of the Chicago, Kansas and Nebraska Railroad resulted in the foreclosure and acquisition by Chicago, Rock Island and Pacific. Through this acquisition, the Company obtained lines connecting its current system with Denver and the Indian Territory. In addition to this southwestern expansion, the company also began rapid acquisition of other lines in the northwest. In 1892, the company owned and operated 3,456 miles of lines extending through eight states and the Indian Territory [Van Oss, page 520].

In 1901, the Company devised a system of holding companies. The parent company, the Chicago, Rock Island and Pacific Railway Company, maintained control of the twelve subsidiaries. During this period assets of the Company totalled nearly $1.5 billion. With this extremely capital intense operation, the company began an expansion endeavor that linked Chicago to the Gulf of Mexico [Stover, page 56].

Between the years 1892 and 1910, the company experienced very little substantial growth and merely maintained economic stability. However, in the early 1910s a high level of competition within the railroad industry resulted in lower profits and a greater amount of debt for Chicago, Rock Island and Pacific. A petition of insolvency was filed against the company in 1915 and the company operated under a receivership arrangement until 1917 when the properties were returned to corporate control. However, the company did not operate profitably for the long-term and filed for a reorganization under Section 77 of the Bankruptcy Act in 1933. A complete reorganization was granted and the company resumed business under the same name [Moody's, page 884].

The company purchased the Pullman Railroad Company on January 1, 1950 for $1,175,000. In 1955, the company petitioned the Interstate Commerce Commission (ICC) to purchase a portion of the Wichita Falls and Southern Railroad Company. The acquisition request was granted and thus, the Chicago, Rock Island and Pacific Railway reached the pinnacle of its economic life cycle. The years 1955 to 1980 brought very little substantial changes for the Company. During this period, the company's debt to equity ratio nearly tripled; thus, forcing the management to constantly confront the problems of meeting the maturing financial obligations.

Facing enormous debt, the company was forced to liquidate many of its holdings in the early 1980s. However, the Company was unable to recover from its severe cash-flow problems brought about by maturing debt obligations and decrease in profits from deregulation in 1980. In 1985, after defaulting on nearly $100,000,000 of long-term obligations, the board of directors voted to petition for complete liquidation under Chapter 7 of the U.S. Bankruptcy code. Thus, the Chicago, Rock Island and Pacific Railroad Company quietly went out of existence after 135 years.

ANALYSIS OF CONTINGENCIES

The records of the Chicago, Rock Island and Pacific Railroad Company provide insight into financial reporting by early twentieth century companies. Specifically, the effects of not disclosing contingent liabilities in the financial statements can be examined through such records of corporate lawyers. Each case contained in the general counsel's docket for the years 1903-1904 of the Company was analyzed, for a total of 307 cases analyzed by this study. The cases were categorized by the issues involved. Thirteen distinct categories of case types emerged from the analysis. The types of contingent liabilities are described below.

1. *Loss of Shipments* brought against the company by customers with claims of damaged or lost goods shipped on the Railroad. The most common type of claim in this category involved cattle.
2. *Property Damage* brought against the Company by parties alleging damage from locomotives or construction of rail lines. Among the most common types of damages alleged were fires caused by trains, smoke damage, flooding due to poor drainage caused by construction, and noise damage.
3. *Passenger Death* brought against the company by the heirs or estates of passengers killed in railroad related accidents.
4. *Employee Death* brought against the Company by the heirs or estates of employees killed in job-related accidents
5. *Personal Injury — Passenger* brought against the Company by passengers injured while on railroad property.
6. *Personal Injury — Employee* brought against the Company by employees injured in work-related accidents.
7. *Personal Injury — Third Party* brought against the Company by individuals other than passengers or employees for injuries sustained from company related accidents.
8. *Property Dispute* brought against the Company by parties alleging ownership of property claimed by the railroad. The most common type of property dispute involved land.
9. *Criminal Trespass* involved charges against the company by parties alleging the Company illegally used or entered property.
10. *Contracts* involved claims by parties of nonperformance of contractual obligations of the Company.
11. *Miscellaneous Actions* involved a variety of suits for relatively small claims brought against the railroad. Common suits in this category included accounts payable dis-

putes, passenger delays, dumping, polluting, and overcharge of freight fees. One case involved segregation of blacks and whites on the passenger trains.

12. *Government Action* brought about by the Kansas Railroad Commission to compel better service and to lower the railroad hauling fees. Also, this category includes a case involving expropriation of a Company bridge by the United States War Department. These cases do not represent pecuniary claims. However, they are discussed since they do impact the financial position of the Company.
13. *Condemnation* of real property for Company use. While these suits involved potential payments of funds, in substance, they do not represent contingent liabilities because the company brings the suit to gain property (assets). Therefore, the condemnation suits are not included in the contingent liability amounts for this analysis.

The total monetary amount of the contingencies identified in the analysis was $778,298 and $424,788 for 1903 and 1904, respectively. These claims ranged in amount from $3 to $50,000. The percentage of the total claims represented by each category was computed and is presented in Table 1. Table 2 presents the average (mean amount) of each claim asserted and the average settlement for each of the categories.

Table 1

Proportional Composition of Contingencies

Types of Contingencies (Freq)	1903 $778,298	1904 $424,788
Loss of shipment (8o)	1.53%	1.22%
Property damage (45)	4.88%	6.52%
Passenger death (4)	10.37%	19.00%
Employee death (35)	8.35%	10.59%
Passenger injury (40)	48.79%	47.79%
Employee injury (10)	6.68%	4.00%
Third party injury (4)	7.07%	1.18%
Property dispute (7)	0.01%	0.50%
Criminal trespass (6)	5.00%	5.65%
Contract disputes (3)	5.24%	2.12%
Miscellaneous (25)	1.78%	1.44%
Government Action (3)	*	*
Condemnation (45)	*	*
(307)	100.00%	100.00%

Table 2
Average of Asserted Claims and Settlements

Types of Contingencies	Average Asserted	Average Settlement
Loss of shipment	$ 285	$ 92
Property damage	1,150	334
Passenger death	20,175	5,973
Employee death	13,400	3,830
Passenger injury	13,729	1,669
Employee injury	9,700	1,108
Third party injury	15,000	638
Property dispute	1,561	415
Criminal trespass	7,333	4,833
Contract disputes	20,380	325
Miscellaneous	797	205
Government Action	*	*
Condemnation	*	*

While passenger-injury claims represented the largest percentage of contingent liabilities for both years, this category did not represent the most frequently asserted claim. Only 40 passenger-injury claims were brought against the Company during the two year period. Loss of shipment claims represented the most frequently asserted claims. The 80 loss of shipment claims, however, represented less than 2% of the total dollar amount of contingencies for each year.

The second most frequently asserted type of litigation against the Chicago, Rock Island and Pacific Railroad Company concerned property damage. However, the 45 cases of property damage also represented a relatively small portion of the contingencies that existed at the balance sheet date for the Company for both years (4.88% and 6.52%, respectively).

Passenger-death suits represented the largest contingency per claim. The average passenger-death claim was $20,175 and settlement of such claims averaged $5,973 per claim. Comparatively, employee death claims averaged much less--$13,400 per asserted claim and $3,830 per settlement.

Injury suits followed a similar pattern. While the average passenger-injury claim totalled $13,729 and was settled for an average of $1,669, employee-injury claims amounted to much less. The average employee-injury claim asserted was $9,700 with an average settlement of $1,108. Thus, the analysis suggests that, on the average, contingencies arising from passenger-deaths and injuries were much greater than those for employees. Passenger-death claims ranged from $10,000 to $30,700 while employee-deaths ranged from $2,000 to $25,000 (see Appendix 1).

While the average claims of third-party injury were higher than the other two types of injuries, settlements per claim were the smallest. Half of the third-party claims represented children injured while playing on or near the tracks. The other claims of this nature involved individuals injured while at railroad crossings within the city of Chicago.

Six cases of criminal trespass were brought against the Company during the two year period. While none of these cases were settled in 1903 or 1904, judgments against the Company for damages were rendered in subsequent periods. The average claim for trespass was $7,333 with settlements averaging $4,833 per claim. Interestingly, the settlement averaged almost as much as passage death settlements and even more than the average employee death settlement. The Company was found guilty in each of the six cases of criminal trespass.

The contract disputes involved construction contract claims against the Railroad. These claims were brought by construction contractors hired by the Company alleging nonpayment for services rendered. While the average claim asserted was $20,380, the average settlement was only $325 per claim.

The general counsel's docket contained 25 cases which could not be categorized. Generally, these cases were not significant in amount. In total, these cases represent less than 2% of the total contingent liabilities of the Company for 1903 and 1904. However, one case included in this category deserves noting. The claim was filed on July 3, 1903 in Memphis, Tennessee by a white male alleging damages because the passenger railcar in which he was riding was not racially segregated. The individual was awarded damages of $100 although the initial claim represented $5,000.

MATERIALITY ASSESSMENT

The effects of the contingent liabilities on the overall financial position of the Chicago, Rock Island and Pacific Railroad were examined. The magnitude of the contingencies to net earnings, assets, and liabilities of the Company was assessed. The financial data of the Company were presented in the financial statements of the company for the years 1903 and 1904 and is presented below (Poor's 1903, page 233 and 1904, page 257) in Table 3.

Table 3

Chicago, Rock Island and Pacific Railroad Reported Financial Data

	1903	1904
Net Earnings	$5,300,000	$5,700,000
Assets	$142,600,000	$176,500,000
Liabilities	$96,400,000	$103,200,000
Unreported Claims:		
Contingent Liabilities (identified in analysis)	$778,298	$424,788
Actual Settlements (identified in analysis)	$33,220	$59,876

The contingent liabilities identified in the analysis represented less than 1% of the total assets and less than 1% of the total liabilities for the Company for the two years presented. Actual settlements represented less than 1% of net earnings of the Company for both years. Therefore, this analysis implies that contingent liabilities for the years 1903 and 1904 were immaterial in amount. Thus, the results of the study fail to support the null hypothesis that the contingent liabilities of the Company were material in amount.

Although the analysis suggests that the dollar amounts of these contingencies may not necessarily be material, the nature of the contingencies may have warranted disclosure under today's accounting standards. The criminal trespass rulings against the Company may suggest a problem of management integrity, and therefore, should be disclosed in the financial statements of the Company. The injury and death suits brought by employees and passengers may have indicated the degree of the overall safety of the operations and therefore, warrant disclosure. Full disclosure of government action to lower rates and compel better service may have been warranted due to the long-term implications on profitability of the Company. Thus, the disclosure of these contingencies could have potentially impacted the decisions reached by the Company's financial-statement users.

IMPLICATIONS OF THE STUDY

There is no question that disclosure of contingent liabilities can potentially influence decisions of financial statement users. Prior to 1953, business enterprises followed a wide array of accounting methods for contingencies. Many enterprises simply did not accrue or disclose contingent liabilities in their financial statements. The Chicago, Rock Island and Pacific Railroad Company was one such enterprise which did not account for contingent liabilities during the early part of the twentieth century.

The effects of not accounting for the contingencies in the 1903 and 1904 financial statements are somewhat ambiguous. On one hand, the simple dollar amounts of the contingent liabilities are not material. However, under current accouning rules, the nature of some of the contingencies would have warranted their disclosure in the financial statements. In any event, a framework of accounting standards for the disclosure of contingencies would have been a valuable tool for financial reporting in the early twentieth century American business enterprise. The disclosure of the contingencies would have provided investors and creditors better insights into the practices of the Company. Thus, if the Company had followed the disclosure requirements of today's Financial Accounting Standards Board Statement *Number 5 Accounting for Contingencies*, decisions made by financial-statement users could have been influenced. Thus, the contingent liabilities of the Chicago, Rock Island and Pacific Railroad Company of 1903 and 1904 would have been material.

While drawing inference from a sample of one is dangerous, the large number of lawsuits and the serious nature of many of the lawsuits (death, injury, etc.) filed against the Chicago, Rock Island and Pacific Railroad without the simple dollar amounts of litigation rising to the materiality of disclosure threshold suggests that contingent liabilities from lawsuits were not a serious enough problem to warrant disclosure in the financial statements. Perhaps, nondisclosure by companies was the appropriate treatment of these contingencies at the turn of the century. It may be that only as settlement and judgment amounts for death, injury, criminal trespass etc. grew exponentially did disclosure and recording of contingent items become important for investors. This perception seems reasonable given the size of the average death settlements - $5,973 for passengers and $3,830 for employees - in 1903/04 versus the settlement figure for similar deaths today. Even adjusted for inflation, cause and insurance coverage, today's settlements for deaths of employees and passengers (airlines for example) are much larger and thus material.

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APPENDIX 1

THE CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY

COMPOSITION OF CONTINGENCIES
1903 AND 1904

Type	Freq.	Range	1903 Settle-ments	Pending 12/31/03	1904 Settle-ments	Pending 12/31/04
Loss of ship	(80)	$7 to $1,993	$2,413	$11,928	$5,133	$5,185
Prop damage	(45)	$15 to $4,000	$4,775	$38,000	$3,209	$27,679
Death-Pass	(04)	$10,000 to $30,700	$0	$80,700	$0	$80,700
Death-Emp	(35)	$2,000 to $25,000	$1,000	$65,000	$900	$45,000
Pass injury	(40)	$250 to $50,000	$15,406	$379,695	$40,146	$203,000
Emp injury	(10)	$1,000 to $25,000	$6,850	$52,000	$5,532	$17,000
TP injury	(04)	$5,000 to $25,000	$350	$55,000	$1,350	$5,000
Prop dispute	(07)	$75 to $7,600	$727	$2,400	$183	$2,100
Crim tresp	(06)	$5,000 to $15,000	$0	$39,000	$0	$24,000
Contracts	(03)	$9,024 to $31,736	$0	$40,760	$0	$9,024
Misc	(25)	$3 to $5,000	$1,699	$13,815	$3,423	$6,100
Govt action	(03)	*	*	*	*	*
Condemnation	(45)	*	*	*	*	*
TOTALS	307	$3 to $50,000	$33,220	$778,298	$59,876	$424,788

APPENDIX 2

CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY

ANALYSIS OF CONTINGENCIES 1903 AND 1904

Filed	Description	$Demand	$ Settle	Date	Place
06/23/03	Pers Injury-Pass	$ 2,000	$ 2,000	01/01/06	Superior, Io
12/20/02	Property Dispute	755	384	07/06/03	Jackson Co., Mo
02/02/03	Loss of shipment	35	12	08/05/03	Morgan, Mo
04/01/03	Loss of shipment	500	0	08/05/03	St. Louis, Mo
04/21/03	Loss of shipment	75	75	11/03/03	Montague Co., Tx
05/14/03	Loss of shipment	100	100	10/11/05	Mills Co., Ok
06/03/03	Property damage	990	200	04/07/04	Pottawa. Co., Ok
05/18/03	Employee Wage	84	83	07/24/03	Pottawa. Co., Ok
06/04/03	Loss of shipment	58	58	08/29/05	Weatherford, Ok
06/23/02	Property damage	4,000	833	11/27/05	I.T.-Ardmore
06/25/03	Property damage	90	0	08/07/03	Pottawa. Co., Ok
05/21/03	Employee wage		0	01/14/04	Custer Co., Ok
06/26/03	Pers Injury-Emp	20,000	1,500	02/01/04	Blkhwk Co., Ok
05/25/03	Employee wage	32	28	10/00/04	Pottawa. Co., Ok
06/03/03	Property damage	990	50	10/00/04	Pottawa. Co., Ok
06/18/03	Loss of shipment	166	0	10/01/03	Kaowa Co., Ok
05/25/03	Property damage	990	0	09/13/05	Pottawa. Co., Ok
10/09/02	Property damage	1,500	825	11/01/07	I.T.-Ardmore
06/26/03	Pers Injury-Emp	5,000	600	09/08/03	Blkhwk Co., Io
04/24/03	Property damage	900	900	11/04/04	Pottawa. Co., Ok
06/03/03	Property damage	990	300	04/07/04	Pottawa. Co., Ok
06/29/03	Loss of shipment	100	68	02/09/04	I.T.-Canadian Co
06/20/03	Misc (ejection of passenger)	2,000	0	01/09/06	Dickinson Co., Io
06/10/03	Employee wage	103	103	06/29/03	Hot Springs, Ar
10/09/02	Loss of shipment	74	73	09/04/03	White Co., Ar
06/25/03	Pers Injury-pass	250	196	09/22/04	El Paso, Tx
06/29/03	Employee wage	30	0	07/13/03	Dodge, Io
06/27/03	Employee wage		0	07/02/03	Davenport, Io
06/27/03	Employee wage		0	07/02/03	Davenport, Io
06/27/03	Employee wage		0	07/02/03	Davenport, Io
06/15/03	Property damage	3,125	0	09/10/09	Ok Co., Ok
06/24/03	Pers injury-pass	5,000	650	10/10/03	Mahaska Co., Io
07/03/03	Criminal Trespass	15,000	15,000	03/21/05	Cook Co., Ill
07/16/03	Property damage	1,500	300	12/21/05	I.T.-Marietta
07/27/03	Employee death	20,000	900	12/02/04	I.T.-Atoka
07/03/03	Misc (Non-segregation)	5,000	100	06/24/04	Memphis, Tn
07/18/03	Property damage	1,500	600	12/21/05	I.T.-Marietta
07/19/03	Property damage	500	425	04/12/10	I.T.-Tishomingo
07/02/03	Loss of shipment	170	115	10/07/03	Memphis, Tn
07/27/03	Loss of shipment		0	09/15/03	Ok Co., Ok
12/31/02	Employee wage	233	125	12/19/03	Little Rock, Ar
06/18/03	Pers Injury-Emp	15,000	250	07/05/04	Sebastian Co., Ar

APPENDIX 2 (Continued)

Filed	Description	$Demand	$ Settle	Date	Place
12/05/01	Property damage	800	700	04/07/03	Little Rock, Ar
06/20/03	Loss of shipment	104	85	10/12/03	Garland Co., Ar
07/03/03	Criminal Trespass	5,000	5,000	09/09/07	Cook Co., Ill
06/04/03	Property damage	95	25	07/13/03	Poweshiek Co., Io
06/16/02	Property damage	100	63	07/09/03	I.T., Southern Dist
06/16/02	Property damage	100	47	07/09/03	I.T., Southern Dist
06/16/02	Property damage	100	47	07/09/03	I.T., Southern Dist
07/09/03	Pers Injury-Pass	25,000	350	09/18/03	Cook Co., Ill
07/14/03	Misc (tax dispute)	3	3	07/17/03	Cook Co., Ill
07/26/03	Property damage		0	06/03/04	I.T.-Red Oak
07/01/03	Pers Injury-Pass	20,000	7,500	12/02/08	Grant Co., Ok
07/07/03	Loss of shipment	40	42	10/01/03	Cass Co., Io
07/07/03	Condemnation		7	03/11/05	I.T.-Western Dist
05/25/03	Property damage	835	835	06/20/03	Pottawa. Co., Ok
04/14/03	Loss of shipment	96	96	12/09/03	Pottawa. Co., Ok
07/14/03	Misc (unknown)	200	0	07/14/03	Cook Co., Ill
07/13/03	Pers injury-pass	10,000	1,600	12/17/07	Will Co., Ill
07/13/03	Pers injury-pass	10,000	500	10/18/07	Will Co., Ill
06/00/02	Condemnation		650	07/08/03	Commanche Co., Ok
07/14/03	Loss of shipment	81	76	06/13/04	I.T.-Central Dis
07/13/03	Pers injury-pass	50,000	10,500	09/16/03	Jefferson Co., Io
07/09/03	Pers injury-pass	2,500	2,500	07/08/05	Shelby Co., Tn
07/08/03	Pers injury-emp	2,000	250	10/13/03	Wyandotte Co., Ks
07/09/03	Loss of shipment	50	53	09/18/03	Muscatine Co., Ks
07/16/03	Loss of shipment	313	313	09/14/03	Muscatine Co., Ks
07/13/03	Condemnation		150	05/25/04	Custer Co., Ok
07/13/03	Condemnation		200	05/25/04	Custer Co., Ok
07/15/03	Loss of shipment	287	168	12/08/05	Jackson Co., Mo
07/13/03	Misc (injunction)	1,500	1,500	07/24/03	El Reno, Ok
07/13/03	Employee wage	77	77	11/30/03	Pottawa. Co., Ok
07/02/03	Misc (delay of pass)	1,900	30	12/00/03	Jackson Co., Mo
07/11/03	Property damage	15	10	02/30/03	R Mills Co., Ok
07/11/03	Property damage	94	35	07/30/03	R Mills Co., Ok
07/02/03	Employee wage	123	55	05/07/05	St. Louis, Mo
07/08/03	Employee wage	10	10	07/13/03	Dallas Co., Io
07/01/03	Pers injury-pass	5,000	50	11/25/04	Jackson Co., Mo
07/03/03	Property damage	175	75	12/28/03	Kansas City, Mo
05/11/03	Condemnation		150	10/02/03	Johnson Co., Mo
05/16/03	Condemnation		100	10/05/03	Johnson Co., Mo
05/16/03	Condemnation		50	10/02/03	Johnson Co., Mo
05/15/03	Condemnation		425	11/07/08	Johnson Co., Mo
05/15/03	Condemnation		35	09/29/03	Johnson Co., Mo
05/16/03	Condemnation		1,200	10/12/03	Johnson Co., Mo
05/16/03	Condemnation		50	10/02/03	Johnson Co., Mo
05/16/03	Condemnation		75	10/02/03	Johnson Co., Mo
05/16/03	Condemnation		70	10/02/03	Johnson Co., Mo
05/16/03	Condemnation		235	10/02/03	Johnson Co., Mo
05/16/03	Condemnation		50	09/29/03	Johnson Co., Mo

APPENDIX 2 (Continued)

Filed	Description	$Demand	$Settle	Date	Place
05/11/03	Condemnation		2,000	01/23/04	Johnson Co., Mo
05/11/03	Condemnation		475	01/23/04	Johnson Co., Mo
05/11/03	Condemnation		600	01/23/04	Johnson Co., Mo
03/31/03	Condemnation		2,272	04/25/05	Johnson Co., Mo
03/31/03	Condemnation		100	09/09/03	Johnson Co., Mo
07/18/03	Employee wage		0	12/03/03	Greer Co., Ok
07/16/03	Misc (overcharge)	15	12	08/04/04	Oklahoma Co., Ok
07/10/03	Property damage	60	29	07/11/03	Yell Co., Ar
07/20/03	Misc (dumping)	31	31	07/27/03	Cook Co., Il
04/13/03	Misc (obstructing Ave)	2,000	0	09/15/09	Logan Co., Ok
07/17/03	Employee death	25,000	1,000	01/09/05	I.T.-Central Dis
07/27/03	Employee wage	60	69	11/30/03	Pottawa. Co., Ok
07/16/03	Loss of shipment	500	206	02/03/04	Pottawa. Co., Ok
07/26/03	Property damage	7,600	168	07/26/03	Woods Co., Ok
07/22/03	Employee wage	39	0	09/10/04	Pottawa. Co., Ok
07/09/03	Loss of shipment	90	70	12/22/03	Pottawa. Co., Ok
11/21/03	Condemnation		493	11/21/03	Blaine Co., Ok
07/18/03	Pers injury-emp	2,000	0	12/31/03	Wyandotte Co., Ks
03/16/03	Property damage	80	50	02/10/04	Gage Co., Ne
02/13/03	Property damage	25	28	02/10/04	Gage Co., Ne
07/10/03	Property damage	75	0	07/20/03	Logan Co., Ar
07/13/03	Loss of shipment	104	0	10/17/04	Prairie Co., Ar
07/13/03	Loss of shipment	116	0	10/17/04	Prairie Co., Ar
07/13/03	Loss of shipment	104	0	10/17/04	Prairie Co., Ar
07/24/03	Misc (overcharge)	18	0	07/06/03	Pulaski Co., Ar
07/30/03	Misc (overcharge)	11	0	10/16/03	Hot Spring Co., Ar
07/01/03	Loss of shipment	12	13	12/23/03	Yell Co., Ar
07/08/03	Property damage	150	0	02/05/04	Sebastian Co., Ar
07/11/03	Employee wage	91	24	09/12/03	Saline Co., Ar
07/14/03	Employee wage	250	150	10/29/03	Logan Co., Ar
07/01/03	Pers injury-pass	1,000	400	07/02/03	Pulaski Co., Ar
06/30/03	Employee death	2,000	1,000	07/14/03	Pulaski Co., Ar
05/20/03	Pers injury-emp	1,000	0	08/27/03	Yell Co., Ar
05/30/03	Employee wage	23	0	09/12/03	Saline Co., Ar
06/06/03	Loss of shipment	22	0	08/20/03	Logan Co., Ar
07/09/03	Employee wage	2	7	07/12/13	Washita Co., Ok
07/27/03	Loss of shipment	20	15	08/17/03	Mills Co., Ok
07/25/03	Loss of shipment	84	34	11/16/03	I.T.-Central Dis
07/01/03	Condemnation		167	02/14/06	St. Louis, Mo
07/18/03	Pers injury-pass	5,000	200	02/10/04	Canadian Co., Ok
07/10/03	Property damage	1,020	230	11/11/03	Pottawa. Co., Ok
07/10/03	Property damage	1,246	625	04/15/04	Pottawa. Co., Ok
07/15/03	Loss of shipment	200	50	07/28/03	Daviess Co., Mo
07/18/03	Pers injury-pass	2,000	500	12/31/03	Wyandotte Co., Ks
03/14/04	Condemnation		170	12/16/03	Jackson Co., Mo
03/14/03	Condemnation		2,800	10/02/05	Jackson Co., Mo
03/28/03	Condemnation		605	12/28/04	Jackson Co., Mo

APPENDIX 2 (Continued)

Filed	Description	$Demand	$ Settle	Date	Place
03/28/03	Condemnation		613	12/31/04	Jackson Co., Mo
03/28/03	Condemnation		592	12/31/04	Jackson Co., Mo
03/25/03	Condemnation		150	09/11/05	Jackson Co., Mo
03/28/03	Condemnation		150	09/11/05	Jackson Co., Mo
05/05/03	Condemnation		1,000	02/19/06	St. Louis, Mo
03/06/03	Condemnation		169	11/04/03	I.T.-Central Dis
06/04/03	Condemnation		50	11/04/03	I.T.-Central Dis
06/23/03	Condemnation		865	11/09/03	I.T.-Central Dis
06/23/03	Condemnation		567	01/16/03	I.T.-Central Dis
06/04/03	Condemnation		2	11/04/03	I.T.-Central Dis
06/04/03	Condemnation		97	11/04/03	I.T.-Central Dis
06/04/03	Condemnation		57	11/04/03	I.T.-Central Dis
06/04/03	Condemnation		8	11/04/03	I.T.-Central Dis
06/04/03	Condemnation		7	11/04/03	I.T.-Central Dis
03/07/03	Condemnation		13	11/09/03	I.T.-Central Dis
08/03/03	Pers injury-emp	10,000	1,500	12/28/03	Cook Co., Il
06/04/03	Condemnation		440	11/19/03	I.T.-Central Dis
03/06/03	Condemnation		9	11/04/03	I.T.-Central Dis
03/06/03	Condemnation		95	11/04/03	I.T.-Central Dis
08/01/03	Pers injury-pass	11,945	6,250	10/12/04	Smith Co., Ks
07/28/03	Pers injury-pass	2,000	0	10/06/03	Jackson Co., Mo
00/00/03	Loss of shipment	70	0	10/22/04	Comanche Co., Ok
07/27/03	Pers injury-pass	20,000	600	02/02/04	El Paso Co., Co
07/14/03	Property dispute	2,000	2,000	02/20/05	Cedar Rapids, Io
07/27/03	Property damage	644	459	09/28/05	Smith Co., Ks
07/27/03	Property damage	1,205	98	11/24/03	Smith Co., Ks
03/21/03	Property dispute	100	100	03/21/03	White Co., Ar
07/25/03	Property damage	1,500	56	01/15/04	Wyandotte Co., Ks
07/31/03	Employee wage	36	0	09/12/03	Ok Co., Ok
07/28/03	Property damage	1,020	800	11/07/06	Ok Co., Ok
07/29/03	Loss of shipment	401	0	02/18/04	Sedgwick Co., Ks
07/29/03	Pers injury-pass	2,000	500	12/31/03	Wyandotte Co., Ks
07/29/03	Pers injury-pass	2,000	500	11/20/03	Wyandotte Co., Ok
08/03/03	Pers injury-emp	2,000	2,282	07/18/07	Smith Co., Ks
08/07/03	Loss of shipment	18	21	09/02/03	Hardin Co., Io
04/07/03	Condemnation	500	200	03/11/04	Jackson Co., Mo
04/07/03	Condemnation	800	0	06/03/04	Jackson Co., Mo
08/07/03	Property damage	2,000	0	09/23/03	Dallas Co., Io
08/07/03	Loss of shipment	18	19	09/10/03	Linn Co., Io
08/10/03	Employee death	15,000	15,000	03/20/07	Jasper Co., Io
08/10/03	Property damage	30	13	09/05/03	Greer Co,. Ok
08/10/03	Property damage	75	35	09/05/03	Greer Co., Ok
08/05/03	Criminal trespass	7,000	4,000	09/17/12	El Paso Co., Co
08/05/03	Property damage	5,000	1,200	10/06/11	El Paso Co., Co
08/05/03	Criminal trespass	7,000	4,000	09/17/12	El Paso Co., Co
08/05/03	Criminal trespass	5,000	250	09/17/12	El Paso Co., Co
08/03/03	Employee wage	12	0	08/26/03	Pottawa. Co., Ok
07/31/03	Employee wage	92	0	09/04/03	Pottawa. Co., Ok

APPENDIX 2 (Continued)

Filed	Description	$Demand	$ Settle	Date	Place
08/03/03	Employee wage	9	0	08/26/03	Pottawa Co., Ok
07/29/03	Loss of shipment	210	125	01/23/04	Case Co., Io
07/29/03	Pers injury-pass	15,000	1,125	01/13/04	Case Co., Io
08/04/03	Loss of shipment	9	4	08/10/03	Pottawa. Co., Ok
08/06/03	Employee wage	1,070	186	02/24/04	Linn Co., Io
03/25/03	Property damage	5,000	296	07/12/09	Logan Co., Ok
03/28/02	Property damage	4,425	1,250	07/13/03	Donley Co., Tx
08/01/03	To compel better service (govt)			08/20/03	Ks RR Commission
08/18/03	Criminal Trespass	5,000	750	03/28/05	Cook Co., Il
08/07/03	Misc (garnishment)	64	64	10/22/03	Shawnee Co., Ks
08/08/03	Pers injury-pass	10,500	550	10/04/07	Shawnee Co., Ks
08/05/03	Property damage	1,000	0	09/17/07	Davies Co., Mo
06/19/03	Loss of shipment	200	0	09/04/03	Cook Co., Il
08/12/03	Pers injury-pass	10,000	150	02/22/04	Linn Co., Io
08/10/03	Pers injury-emp	15,000	200	07/14/06	El Paso Co., Tx
08/10/03	Pers injury-pass	30,000	4,000	06/10/04	El Paso Co., Tx
07/19/03	Seize Prop (War Dept)			06/10/04	Washington, D.C.
07/00/03	To lower rates (govt)			08/15/03	Ks RR Commission
08/17/03	Property damage	1,950	700	11/28/03	Jackson Co., Mo
08/18/03	Loss of shipment	1,000	0	03/23/04	Grant Co., Ok
08/18/03	Loss of shipment	1,000	0	03/23/04	Grant Co., Ok
08/00/03	Property dispute	100	0	10/19/09	Clinton Co., Mo
08/17/03	Loss of shipment	384	0	10/05/04	Benton Co., Io
08/14/03	Pers injury-pass	25,000	10,000	11/22/06	Muscatine Co., Io
08/14/03	Death of passenger	30,700	10,281	05/20/07	Muscatine Co., Io
08/05/03	Employee death	5,000	1,250	12/09/05	I.T.-McAlester
08/17/03	Loss of shipment	82	18	05/19/04	Jasper Co., Io
08/25/03	Loss of shipment		0	09/04/03	Cook Co., Il
08/07/03	Death of passenger	10,000	3,500	04/10/08	Kingfisher Co., Ok
07/15/03	Loss of shipment	260	0	09/07/03	I.T.-Chickasha
08/14/03	Loss of shipment	225	225	02/27/04	Jefferson Co., Ne
08/11/03	Pers injury-pass	2,000	375	01/21/04	Jackson Co., Mo
08/10/03	Loss of shipment	356	140	02/00/04	Republic Co., Ks
08/14/03	Pers injury-pass	25,000	0	12/22/06	Clinton Co., Mo
08/06/03	Property dispute	75	75	09/29/03	I.T.-McAlester
08/10/03	Pers injury-pass	10,000	0	12/15/04	Jackson Co., Mo
08/05/03	Loss of shipment	375	0	11/06/05	I.T.-Atoka
08/13/03	Loss of shipment	70	35	05/21/04	I.T.-Wilburton
08/21/03	Death of passenger	25,000	0	06/19/07	Scott Co., Io
08/18/03	Pers injury-pass	50,000	0	05/09/04	Linn Co., Io
08/18/03	Pers injury-pass	2,500	0	05/09/04	Linn Co., Io
08/19/03	Property damage	600	1,000	106/06/04	Pottawa. Co., Io
08/20/03	Loss of shipment	296	296	09/17/03	Washington Co., Io
08/13/03	Employee wage	25	25	03/21/06	Elden, Io
08/27/03	Misc (A/P dispute)	27	27	09/01/03	Cook Co., Il
01/02/03	Contract dispute	9,024	650	03/16/05	Ok Co., Ok
08/11/03	Misc (overcharge)	17	24	11/03/03	Ok Co., Ok
08/06/03	Contract dispute	31,736	0	06/20/04	Ok Co., Ok

APPENDIX 2 (Continued)

Filed	Description	$Demand	$ Settle	Date	Place
08/13/03	Pers injury- pass	5,000	105	11/02/05	Ok Co., Ok
08/13/03	Employee wage	32	0	10/13/03	Pottawa. Co., Ok
08/14/03	Loss of shipment	70	45	07/20/04	Ok Co., Ok
10/25/02	Pers injury-third party	5,000	850	07/17/06	Logan Co., Ok
08/18/03	Employee wage	24	8	10/21/04	Pottawa. Co., Ok
08/13/03	Loss of shipment	44	40	05/24/05	Pottawa. Co., Ok
07/22/03	Loss of shipment	499	386	02/29/04	Montague Co., Tx
07/22/03	Loss of shipment	858	312	11/06/03	Montague Co., Tx
08/10/03	Loss of shipment	512	360	06/13/04	Tarrant Co., Tx
07/27/03	Loss of shipment	682	0	12/05/03	Baylor Co., Tx
07/27/03	Loss of shipment	900	536	10/29/03	Dallas Co., Tx
07/03/03	Pers injury-pass	25,000	4,273	03/21/05	Montague Co., Tx
07/25/03	Property damage	900	390	02/21/05	Montague Co., Tx
07/14/03	Loss of shipment	219	0	01/23/05	Panola Co., Tx
07/27/03	Pers injury-pass	3,000	0	04/27/07	Jack Co., Tx
08/19/03	Pers injury-pass	30,000	0	12/04/05	Jack Co., Tx
07/13/03	Loss of shipment	1,200	300	03/24/05	Jack Co., Tx
07/21/03	Loss of shipment	548	345	02/03/04	Jack Co., Tx
07/18/03	Pers injury-pass	15,000	750	01/19/04	Young Co., Tx
07/16/03	Loss of shipment	402	402	02/23/06	Jack Co., Tx
07/01/03	Pers injury-pass	10,000	6,793	10/24/05	Jack Co., Tx
07/14/03	Loss of shipment	510	0	08/20/03	Jack Co., Tx
07/03/03	Loss of shipment	1,993	1,000	05/10/06	Tarrant Co., Tx
07/08/03	Pers injury-pass	5,000	488	12/29/03	Tarrant Co., Tx
07/16/03	Loss of shipment	450	0	08/20/03	Jack Co., Tx
08/13/03	Loss of shipment	1,000	400	03/11/04	Tarrant Co., Tx
07/23/03	Pers injury-pass	30,450	318	09/25/03	Jack Co., Tx
03/18/03	Loss of shipment	51	51	02/09/04	Denton Co., Tx
08/26/03	Property damage	3,950	1,100	09/30/04	Sarpy Co., Ne
08/25/03	Employee wage	158	95	04/00/04	Hardin Co., Io
08/20/03	Pers injury-pass	10,000	1,200	12/18/03	Ramsey Co., Mn
08/27/03	Property damage	400	400	07/10/05	Cedar Rapids, Io
08/27/03	Death of passenger	15,000	10,109	01/11/06	Scott Co., Io
08/22/03	Property dispute	300	183	06/03/04	Canadian Co., Ok
09/03/03	Loss of shipment	200	55	10/02/03	Cook Co., Il
09/05/03	Loss of shipment		72	09/09/03	Cook Co., Il
09/17/03	Pers injury-pass	25,000	1,200	01/27/04	Cook Co., Il
08/13/03	Employee wage	100	0	10/14/03	Ok Co., Ok
10/10/03	Misc (pollution ord)	200	10	10/14/03	Chicago, Il
10/10/03	Misc (pollution ord)	200	10	10/14/03	Chicago, Il
10/17/03	Loss of shipment	200	53	12/11/03	Cook Co., Il
09/11/03	Misc (A/P dispute)	200	0	09/18/03	Cook Co., Il
05/04/03	Pers injury-emp	25,000	4,500	12/20/03	Montague Co., Il
03/00/03	Loss of shipment	450	0	03/00/03	Grundy Co., Il
11/24/03	Loss of shipment	60	10	02/02/04	Cook Co., Il
11/02/03	Employee wage	140	0	11/21/03	Cook Co., Il

APPENDIX 2 (Continued)

Filed	Description	$Demand	$ Settle	Date	Place
07/04/03	Pers injury-third party	5,000	350	12/18/03	Cook Co., Il
12/04/03	Misc (A/P dispute)	2,700	500	04/26/04	Chicago, Il
01/17/04	Loss of shipment	500	186	04/25/05	Cook Co., Il
01/06/04	Loss of shipment	200	15	01/16/04	Cook Co., Il
01/12/04	Misc (ICC fine)	200	200	01/12/04	Chicago, Il
03/29/03	Loss of shipment	200	109	01/27/04	Cook Co., Il
01/22/04	Loss of shipment	40	12	03/05/04	Cook Co., Il
02/10/04	Pers injury-pass	10,000	250	09/16/04	Cook Co., Il
02/06/04	Misc (pollution ord)	100	19	02/12/04	Cook Co., Il
03/14/04	Loss of shipment	1,000	1,000	05/28/04	Cook Co., Il
04/01/04	Misc (pollution ord)	100	15	04/07/04	Cook Co., Il
04/09/04	Misc (pollution ord)	100	23	04/23/04	Cook Co., Il
03/03/04	Miscellaneous	68	0	04/12/04	Cook Co., Il
04/18/04	Loss of shipment	200	32	04/21/04	Cook Co., Il
04/22/04	Miscellaneous	200	0	04/28/04	Cook Co., Il
03/23/04	Misc (improvement asst)	2,477	2,477	12/22/04	Chicago, Il
04/14/04	Loss of shipment	200	44	05/20/04	Cook Co., Il
05/23/04	Pers injury-third party	25,000	675	06/29/04	Cook Co., Il
04/23/04	Pers injury-third party	25,000	675	05/26/04	Cook Co., Il
05/24/04	Loss of shipment	100	45	06/13/04	Cook Co., Il
04/01/04	Loss of shipment	200	70	07/07/04	Cook Co., Il
06/03/04	Loss of shipment	1,000	200	12/13/04	Cook Co., Il
06/24/04	Loss of shipment	200	0	07/15/04	Cook Co., Il
06/08/04	Loss of shipment	7	7	07/29/04	Cook Co., Il
10/12/04	Loss of shipment	200	5	12/19/04	Cook Co., Il
12/26/04	Pers injury-pass	25,000	400	01/03/05	Cook Co., Il
11/23/04	Loss of shipment	125	125	11/28/04	Cook Co., Il
11/16/04	Loss of shipment	200	200	12/01/04	Cook Co., Il

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REVIEWS

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REVIEW OF BOOKS AND OTHER PUBLICATIONS

R. Dan Brumbaugh, Jr., *Thrifts Under Siege* (Cambridge, MA: Ballinger Publishing Company, 1988, 214 pp., $39.95).

Paul Zane Pilzer, *Other People's Money* (New York: Simon & Schuster, 1989, 269 pp., $17.95).

Stephen Pizzo, Mary Fricker, and Paul Muolo, *Inside Job: The Looting of America's Savings and Loans* (New York: McGraw Hill and Company, 1989, 443 pp., $18.95).

A Review Essay:
The Savings and Loan Crisis

by James Schaefer
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In the winter of 1989, the seriousness and magnitude of the S & L crisis became everyday news. Fraud, insider abuse, poor management practices, regulation, and deregulation have all been stated as major contributions to the problem. While the full costs of the crisis, ultimately to be borne by U.S. taxpayers, will not be known for some time, official estimates (including interest) have exceeded $400 billion [U.S. Congress. House Committee on Ways and Means 1989, p. 20], prompting predictions that the industry itself has been destroyed.

The accounting profession has two areas of risk exposure from the S & L Crisis. One is the use by S & L's of regulatory accounting principles (RAP) instead of GAAP. The second is the concern that the auditors, while not responsible for the crisis, could have "at least sent up a warning shot" [*The New York Times*, March 12, 1989]. These two risks provide important research opportunities for accounting historians.

REGULATORY ACCOUNTING PRINCIPLES

From 1932 until 1989 federally chartered savings and loans (thrifts) were regulated by the Federal Home Loan Bank Board.

One function of the Bank Board was to determine the accounting procedures (RAP) to be used by thrifts. Regulatory net worth is based on RAP, as opposed to net worth based on GAAP. Both Pilzer and Brumbaugh include discussions on the importance of RAP to the S & L crisis. Pilzer provides anecdotal evidence of the problems in using RAP [pp. 75-76; 125-126; 132-134], focusing on how an S & L could sell a mortgage at a loss and then amortize the loss in future periods. In contrast, GAAP treatment would recognize the loss in full during the year of the sale. Pilzer argues that RAP encouraged thrifts to sell home mortgages and use the proceeds to make riskier investments (i.e., junk bonds) in hopes of earning higher returns, and suggests that such reinvestment was widespread among thrifts in the 1980s.

Brumbaugh devotes considerable discussion [pp.36-66] to the differences between RAP and GAAP, explaining how the difference in RAP treatment of loan losses originated as well as documenting the extent to which it occurred. Through 1980, RAP and GAAP net worth for federally-insured thrifts were virtually identical. However, in 1981 the Bank Board passed a resolution allowing thrifts to amortize the losses on any assets sold over the remaining contractual life of the assets. Brumbaugh then presents tables which depict the components of the "RAP-GAAP net worth differential" he has calculated, which rose, by 1984, to $9 billion, of which $6 billion was from the deferral of loan losses. He then argues that the number of thrifts insolvent according to RAP was substantially less than the number insolvent according to GAAP, thereby reducing the candidates for closure by the FSLIC. While the FSLIC had been grossly underfunded due to a massive influx of newly-allowed brokered funds since 1983 [Pilzer, p. 14], RAP apparently concealed the financial woes of the industry.

The potential for criticism of the accounting profession regarding the accounting principles used by thrifts is considerable. While the traditional accounting standard-setting mechanism was not involved, accountants were employed by the Bank Board, the thrifts, and, most obviously, the CPA firms auditing the thrifts. Surely some accountants recognized that allowing the deferral of losses was a serious departure from the conservatism principle which underlies GAAP, requiring a different interpretation of thrift financial statements and data than used for GAAP statements. The defense that the deferral of loan losses was an "accounting thing" is of little consolation to the general public, which will ultimately pay for the S & L debacle through increased taxes and loss of other government services.

THE ROLE OF THE AUDITORS

Many of the recently-failed thrifts received unqualified audit opinions prior to closing. While the auditing profession can offer the standard replies to criticism of their ability to foresee the future or detect fraud, this also is of little consolation to American taxpayers. A careful interpretation of the books being considered here suggests two audit areas which could benefit from a historical analysis of the savings and loan crisis — inflated valuations and integrity of management.

Both Pilzer and Pizzo *et al.* cite numerous examples of thrift owners "flipping" properties back and forth among themselves, artificially inflating the value of the land in the process. For example, Pilzer investigated deed records in Texas [pp. 93-95] to show how property apparently escalated in value from $17.25 million to almost $65 million in two years. Every transaction was thrift-financed, with no money down. Pilzer provides other examples of these transactions, leaving the impression that this practice was not uncommon. Pizzo *et al.* detail similar land flips throughout their book, as well as a policy by some thrifts of requiring borrowers to put a portion of the loan proceeds in reserve to cover the first two years' worth of interest [pp. 29, 209]. The purpose of such reserves was to make a loan appear current.

Traditionally auditors have focused on performance (payment of principal and interest as scheduled) when evaluating existing loans. Further, thrifts, when considering potential borrowers for loans, placed the primary emphasis on the quality of the collateral and then considered the creditworthiness of the borrower [McEachern, 1990, p. 50]. Banks, on the other hand, generally have focused their attention on the borrower's credit quality first and then on the collateral of the loan [*ibid*]. Hence the independent auditors of thrifts were not likely to be as concerned with the quality of loan portfolios as they perhaps should have been.

The integrity of management in certain thrifts is another area which should have warranted more auditor attention. One example of management abuse reported by Pilzer [pp. 99-112] is Vernon Savings and Loan, of Dallas, Texas. Although Vernon was profitable at the time of its purchase in 1981, a new owner W.D. Dixon subsequently spent millions of its funds on artwork and exotic cars before federal regulators closed the thrift in 1987. Pizzo *et al.* also discuss Dixon's abuse of Vernon Savings and Loan [pp. 188-199] and involvement of convicted felons in thrift management. In fact, the central theme of the Pizzo *et al.* book is that management abuse of thrifts was rampant in the 1980s. In each of the few dozen failed thrifts examined, they found evidence of a purposeful and coordinated system of fraud, and conclude:

> A financial mafia of swindlers, mobsters, greedy S&L executives, and con men capitalized on regulatory weaknesses created by deregulation and thoroughly fleeced the thrift industry (p. 298).

While students of the S & L crisis may not be convinced of the pervasive involvement of organized crime in insolvent thrifts suggested by Pizzo *et al.*, government reports suggest that criminal activity was a central factor in many thrift insolvencies [*e.g.*, see General Accounting Office June, 1989]. Hence, it might be prudent for auditors to investigate more carefully the background of top management before accepting new clients. A scientific analysis of the background of individuals who managed now-bankrupt thrifts could provide evidence as to the validity of Pizzo *et al.*'s conclusion. If management cannot be assumed to have a reasonable level of integrity, extra care would be necessary in all levels of audit engagements.

CONCLUSION

All three books reviewed here are recommended for researchers interested in the savings and loan crisis. Brumbaugh is an obvious starting point for those interested in the financial accounting aspects of the industry. Both Pilzer and Pizzo *et al.* provide good discussions of the history of the industry as well as insight into the regulatory problems involved. Both Pilzer and Pizzo *et al.* also conclude that the entire industry is insolvent and has been eliminated as a viable part of the financial services sector. If the industry is indeed dead, accounting historians may begin their work in earnest.

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U.S. General Accounting Office, *Thrift Failures. Costly Failures Resulted From Regulatory Violations and Unsafe Practices*, 1989. Report to the Congress, GAO/AFMD-89-62.

Edward I. Altman, *The Prediction of Corporate Bankruptcy: A Discriminant Analysis* (Thesis (Ph.D.) — University of California, Los Angeles, 1967. Reprint edition, New York: Garland Publishing, Inc., 1988, 184 pp., $34).

by Ahmed El-Zayaty
Northeastern Illinois University

This book is Altman's doctoral thesis which was written in 1967 at University of California, Los Angeles. Quoting from the first chapter:

> The purpose of this thesis is to investigate empirically the characteristics of bankrupt corporations and attempt to develop an accurate bankruptcy predictive model through a multiple discriminant analysis technique using financial and economic ratios as the predictive variables. The analysis will be restricted to manufacturing corporations [p. 5].

In a typical dissertation style, the book contains seven uneven chapters and eight appendices. However, it is essentially composed of four parts:

Part I: A brief review of prior research using univariate ratio analysis as a technique for identifying and predicting corporate financial difficulties.

Part II: A discussion of the shortcomings of the univariate approach and a presentation of the multiple discriminant analysis as more appropriate technique to capture the characteristics of bankrupt corporations.

Part III: A development of a discriminant function. Altman used a paired sample consisting of thirty-three pairs of manufacturing firms, where industry and size were used as the pairing criteria, and twenty-two accounting and nonaccounting variables were considered in various combinations to explore the most efficient discriminant function. A five-variable discriminant model was identified as being the most accurate in discriminating the bankruptcy status of the sampled firms. This discriminant model was then validated in both a descriptive and a predictive sense. For the former, the selected model was used to classify the original sample from which the discriminant function was developed; the model correctly classified 94% of the cases. For the latter, the model was used to classify a secondary (holdout) sample; the model correctly classified 96% of the cases.

Part IV: An analysis of the study results was presented, some implications of these results were discussed, and possible uses of the model were suggested such as business credit evaluation, internal and external management considerations, and investment guidelines.

In evaluating the contribution of this book one should note that it was written more than two decades ago when researchers lacked the luxury of many of the research tools available today. Given the state of the art at that time, the bankruptcy prediction model developed in this book (thesis) is considered a pioneering attempt to an integrated approach for using financial ratios to identify the characteristics of a bankrupt company. In fact, Altman's initiative has stimulated a whole line of research studies that used the multivariate analysis approach for evaluating the ability of several ratios (taken together) to assess the financial status of a firm.

Subsequent research studies have attempted to improve upon and extend Altman's early work. Indeed, there are now numerous business failure prediction models available for researchers and practitioners. Consequently, this book may be useful only from a historical perspective. It represents a turning point in the historical development of corporate bankruptcy prediction. It could be a valuable required reading for M.S. and Ph.D. business students. It gives not only a good example of the writing and analytical style of a Ph.D. thesis in the late sixties, but it also highlights the difference in analytical process of the univariate versus the multivariate approach to predict corporate bankruptcy.

Hugh M. Coombs and J.R. Edwards (Eds), *Accountability of Local Authorities in England and Wales 1831-1935* (New York: Garland Publishing, Inc., 1990, 732 pp., $125).

by R. H. Jones
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These two volumes are indispensable in researching the foundations of governmental accounting. Their main purpose is to reproduce archival material about local government accounting and auditing in the United Kingdom. The period covered was well-chosen because it represents what historians recognize to be the formative period of continuous progress in developing the UK system of local government. An understanding of the present system requires an understanding of this period. Moreover, since many countries were influenced by the UK system (notably in the Commonwealth, but also in the United Sates where the UK system tended to be used as an example of how *not* to organize local government), there should be significant interest outside the UK.

As is usual in governmental accounting, there is an underpinning of statutory and other regulations that are not easy to keep track of contemporarily, much less over a period such as 1831-1935. This is the value of these two volumes. The authors reproduce accounting and audit extracts from a selected list of the Acts of Parliament passed during this period. In addition, other materials are included. A set of published financial statements of a local authority, dated 1907, is reproduced. Extracts are included from the evidence collected and reports prepared by selected government committees during the period. In addition to this archival material, a number of reference lists are provided, most notably a summary of the audit and accounting regulations in force for the years 1873, 1907 and 1937; and fuller lists of Acts of Parliament, committee reports and other government reports, including those that could not be reproduced because of space constraints.

Inevitably in a work of this kind, there will be material left out that a reviewer, who does not feel the constraints of publishing quite so directly as the editors, would wish had been included. A cross-check with Jones [1986] reveals that all references made there to the law, regulations and government reports have been included in these volumes, albeit with a small group of exceptions. This group relates to references to local government finance, which have not been reproduced. It is easy to see the rationale: if these had been included there would have been pressure to include many more references to finance and at least three volumes would have been required! However, the price of excluding this small group is high. Local government accounting is, and always has been, fundamentally different from commercial accounting precisely because loan repayments or loan redemptions have by law had to be debited to the operating statement; in complete contrast to commercial accounting, matters of finance are inextricably bound up with matters of accounting.

In this reviewer's opinion, examination by researchers of s234 of the Public Health Act 1875 and the 1902 Select Committee on Repayment of Loans by Local Authorities (HOC 239) will more than repay the additional effort. Two other selections are included in these volumes, although in contrast to the rest of the material, neither is particularly satisfactory. An introduction provides a brief overview of the history of local government accounting. Given its length, it could not do justice to such a significant and long history, but it also appears to this reviewer to give a somewhat peculiar view. There is also a short select bibliography, which inevitably cannot do justice to the available literature, but does omit very important work such as Cannan [1912] and Page [1985], perhaps on the ground that these primarily relate to finance.

These two volumes make a unique contribution to local government accounting research and should stimulate much more work in this important, much-neglected area.

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J.R. Edwards (Ed)., *Legal Regulation of British Company Accounts 1836-1900*. (New York: Garland Publishing, Inc., 1986, 2 Vols., 755 pp., $95).

by Bruce La Rochelle
Concordia University

This is Edwards' second collection of legislation of interest to the accounting historian, ostensibly complementary to Edwards [1980]. The most recent collection is primarily an edited collection of statutory provisions. It would appear to be of greatest use to the historian who is intimately familiar with the accounting and auditing developments of the period covered, who can clearly recognize and distinguish what has been included from what has been excluded. For others, the collection may be of limited use and quite possibly prejudicial as a research source, in that one must rely on the judgment of the editor as to the appropriateness and completeness of the extracts chosen. Such choice is acknowledged by the editor to be arbitrary [Introduction, p. 4].

Apart from the text of a 13-page introduction, editor Edwards has chosen to let the reader wade through in excess of 700 pages of statutory references, with no guidance whatsoever. The stated objective of Edwards is "to focus attention on the steps leading to new legal regulations", relative to government attempts to regulate corporate developments and fraudulent activities by corporate promoters. Since no statute is discussed beyond a brief reference, at best, in the introduction, it is difficult for the reader to find the focus which Edwards intends.

The structure of the collection includes extracts relating to statutory companies (such as public utilities and companies incorporated by Royal Charter or private act of parliament) in Volume 1, while extracts relating to registered companies (such as joint stock companies) are included in Volume 2. Included in the latter part of Volume 2 are examples of published accounts, without discussion, to illustrate compliance with the statutory extracts in Volumes 1 and 2. Some light is cast on the registered company extracts in Volume 2 by the inclusion of related reports by legislative committees; nothing comparable is found with respect to the extracts in Volume 1. With respect to the legislative extracts concerning registered companies, Edwards has chosen to include the first bill as well as the final legislation, deliberately [Introduction, p. 7] leaving the reader to infer deletions between the first bill and the final legislation. The utility of this approach is unclear, in the absence of explanatory text. Of interest are those bills which did not result in legislation, such as bills to regulate financial malpractices in the railways. However, beyond mentioning that such bills are included in the collection, little, if any, information is provided as to why a particular bill did not pass.

For the more general historian, this book could be reworked, with parts of Edwards [1980], as an essential reference tool. This could be achieved by regarding what is here as a collection of documents requiring commentary and integration throughout. Alternatively, one could integrate what is here with an edited collection of articles, plus commentary. In a hoped-for second edition, Edwards might consider these suggestions, which are made with respect for the obvious time and care associated with the document collection.

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Edwards, J.R. (ed.), *British Company Legislation and Company Accounts 1844-1976*, New York: Arno Press (1980).

Max Holland, *When the Machine Stopped (A Cautionary Tale from Industrial America)* (Boston: Harvard Business School Press, 1989, 335 pp., $14.95).

by Patti A. Mills
Indiana State University

This book should be required reading in all accounting and business curricula in the United States. The author, Max Holland, tells the fascinating — and ultimately, grim — story of Burgmaster Corporation, its rise to prominence as one of America's premier machine tool manufacturers, and how it was "managed" out of existence in the heady days of the 1980s. This is more than the story of a single company, however; it is also about the demise of American manufacturing in general, and the reasons U.S. industry has lost its competitive edge in world markets.

Burgmaster was the quintessential American success story. Started in 1944 by a Czechoslovakian immigrant, the company grew from humble beginnings in the garage of its founder, Fred Burg, to become one of the major machine tool manufacturers in the United States. Over the period 1946 to 1965, Burgmaster and the industry as a whole benefitted from a relatively stable economy, low inflation and minimal foreign competition. Holland, however, attributes the greater part of the company's success to one "simple yet vital fact": "the Burgs knew their business". Fred Burg, his son, and son-in-law — the top three executives at Burgmaster — were all former machinists, and their management approach derived from that experience. Short-term horizons and management fads were alien to them. Rather, the Burgs made technological innovation the firm's highest priority and cultivated the skilled and dedicated work force necessary to achieve it.

These priorities began to shift in 1965 when Burgmaster was acquired by a conglomerate, Houdaille Industries. As the Burgs and their key employees were eased out, Burgmaster acquired several new layers of managers and accountants, few of whom had any intimate knowledge of the company or of machine tool manufacturing and who spent their time producing the reports, budgets and forecasts that had become the new lifeblood of the firm. Numbers had been used at Burgmaster, but as "a measure of performance and a guide." Now they were an end in themselves, "an all-consuming purpose" imposed by a distant head office. Production, too, was made to fit the new corporate structure. Under the Burgs, manufacturing foremen had always been actively involved in drawing up production schedules; now their only task was to meet them, their part in production planning having been usurped by a greatly expanded "production control department." In short, a "distant, managerial capitalism" replaced the vitality and entrepreneurship that had been Burgmaster.

The company stagnated in the early 1970s, helped by a rising dollar and a shortage of qualified machinists. The division between blue-and white-collar workers yawned ever wider and Burgmaster produced increasingly inferior products, gradually losing its competitive and technological edge to Japanese manufacturers. The beginning of the end occurred in 1979, when Houdaille was the subject of a leveraged buyout. Engineered by the notorious KKR & Co., the LBO left a crushing burden of debt, which the subsidiaries were forced to service. Indeed, increasing cash flow by whatever means possible soon became the primary objective of management. Needless to say, this shortsighted approach only added to the problems at Burgmaster;

the effects of an overvalued dollar and a mismanaged economy in the early 1980s finished the job. Burgmaster was liquidated in 1985.

Just prior to Burgmaster's demise, Houdaille made a last, desperate effort to save its machine tool interests, which unfortunately had little to do with the company's real problems. Like many failing industries before and since, it attempted to secure protectionist legislation. These machinations, and the complicity of political figures and the media in Houdaille's "jap bashing," must rank as one of the saddest and most pathetic chapters in recent business history.

Holland tells this story with passion and a genuine concern for the future of U.S. business. He is particularly good at drawing out the wider implications of the Burgmaster experience. Among these are that no country can become — or remain — a major economic power without an indigenous manufacturing base; that American industry is hamstrung by a *de facto* industrial policy which subsidizes speculation and wasteful military spending at the expense of productive investment; and finally, that no amount — or quality — of accounting and reporting can substitute for effective, hands-on management. Holland's observations on accounting are particularly timely, considering recent calls within the profession for improved costing methods. If the story of Burgmaster shows nothing else, it is that more and better accounting information is unlikely to alleviate the problems of American manufacturing; a different management approach and a consciously formulated industrial policy are better bets.

Selden R. Hopkins (Ed.), *The Book-keeper and the American Counting Room, ([New York: 1880-1884]*, 4 Volumes; Reprint edition, New York: Garland Publishing, Inc., 1989, 1,922 pp., $400).

by Gary John Previts
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These volumes fill a major void in archival material for those researchers interested in late nineteenth-century professional accounting developments in the United States.

The *Book-keeper*, while somewhat mistitled in our contemporary meaning of the term, is a combination of correspondence, book reviews, notices, professional news, legal decision notices, classified advertisements, with many scholarly and practical papers included, if not dominant.

Vol 1, No. 1 (July 20, 1880) contains the first of several continuing essays which introduce the forming profession to C.E. Sprogue's seminal thought and process, entitled "The Algebra of Accounts." The latter significantly influenced many early twentieth-century writers, including Hatfield and Paton.

The practical papers cover a range of topics such as foundry accounts (October 26, 1880); compulsory book-keeping (standard setting) (October 26, 1880); detection of errors (March 15, 1881); speculation, balance sheets, treatment of discounts (October 1881); joint-stock records (December 20, 1881); education (January 3, 1881); professional status (February 14, 1882) and organization (May 9 and September 12, 1882) history (Jones *English Book-keeping*) (September 12, 1882); theory (Is the Capital Account a Liability?) (December 19, 1882); biography (January 30, 1883); changing from partnership to corporation (June 5, 1883); technology (August 1883); poetry (November 1883); scope of service (March 1881 and January 1884); and others.

The helpful indexes placed in the front of each of the four reprint volumes eliminates the need to turn pages extensively in search of key topics. However, if one wishes to use those volumes to their fullest, I would recommend a thoughtful, chronologically sequenced perusal. Such an effort will likely reward one with a sense of time and a further appreciation for the depth of subject, treatment and sophistication of our forebears.

The American Accounting Room volumes, which run from July 1883 through June 1884, are quite different in focus and content when compared with the *Book-keeper*. Perhaps the most interesting feature is an organized section of correspondence, "Counting-Room Chats."

The reprint title page of Volume 4 is in error — referring to a period January 1884 to December 1884; whereas the publication ceases in June 1884. It was also noted that the reprints should be based upon the "2nd printing" of some *Book-keeper* numbers and not the original number. Whether or not these "2nd versions" were identical to the original printings is an open question.

The *Book-keeper* title was subsequently resurrected for use by an association based in Detroit, suggesting that the market for professional publications continued to develop before the *Journal of Accountancy* appeared in 1905. The interim was filled by such publications as *Accountics*, which itself existed through only a half-dozen or so volumes. Perhaps, as the reprinted stepping stones into our past are recovered in these Garland series, *Accountics* would be a good choice as a reprint.

Luca Pacioli, Unsung Hero of the Renaissance (A Film by Southwestern Publishing Co. and the Pacioli Society, 1990, $45).

by Victoria Beard
University of North Dakota

This twenty-five minute educational video documents the life and times of the Italian Renaissance mathematician Luca Pacioli, "Father of Accounting." It was shot on location in Sansepolcro (Pacioli's home town), Florence, Venice, and Milan, using authentic Renaissance costumes and props. It is the kind of audiovisual feast of art, music and scenery that we have come to expect in a documentary about Renaissance Italy.

Born in 1445 in a small town in Tuscany, young Luca Pacioli received his early religious and mercantile training from the local Franciscan monks. At sixteen, he eschewed the traditional trade apprenticeship for a series of educational associations which ultimately put him in touch with the great artistic and intellectual minds of Renaissance Italy: Piero della Francesca (painter, Latin scholar, poet, cosmographer, architect, mathematician), Duke Federico of Urbino (and his 4,000 volume library), Leon Battista Alberti (architect, artist, scientist, author), Pope Paul II (who convinced Pacioli to become a Franciscan monk), and Leonardo da Vinci. Pacioli's collaboration with these artists and architects is wonderfully illustrated by the geometric proportions of Alberti's facade of Santa Maria Novella in Florence and by the sophisticated perspective in Leonardo's *Last Supper*.

This is not primarily a video about accounting or about the origins of Venetian (double-entry) bookkeeping. It is about the essence of the Renaissance, a time when "the mathematician gave proportion to the artist, and science fueled art," a time when religion and education, mathematics and art, science and business were unencumbered by the closure of professionalism. That Pacioli repeatedly crossed over these professional borders with enthusiasm and curiosity is a particularly important message for today's accounting students.

Pacioli placed such great importance on the practical, commercial application of mathematical theory that in 1494, when he published his *Summa de Arithmetica, Geometria, Proportioni et Proportionalita (The Collected Knowledge of Arithmetic, Geometry, Proportions and Proportionality)*, it was in the vernacular Italian rather than Latin. Here, for the first time, is a complete description of double-entry bookkeeping, along with a compendium of common business sense, "a textbook for teachers, a manual for merchants."

This unique video is particularly appropriate for beginning accounting students, both at the high school and college levels. Throughout, the viewer remains comfortably involved in the narrative by way of repeated dissolves back and forth from the Renaissance reenactments to the modern-day announcer at the same location. That it is, in places, overly dramatic is easily forgivable.

McCraw, Thomas ed., *Regulation in Perspective: Historical Essays* (Cambridge, Mass: Harvard University Press, 1981, 256 pp., $10.95).

by Geofrey T. Mills
University of Northern Iowa

This book is a collection of five essays, plus the report of a rapporteur, stemming from a Conference on the History of Public Policy sponsored by the Harvard Business School in late 1980. It is an interesting exercise to review these essays, nearly a decade since they were written, because so much has changed in the patina and paraphernalia which surrounds government regulation. It appears that the heavily regulated, command economies of the second and third world have utterly lost the battle for the hearts and minds of their peoples. Everywhere we look, it seems, capitalism is being embraced, such that government regulation is not the issue it once was. I suspect this is a somewhat rosy view, and can, therefore, recommend this volume as required reading for everyone interested in regulatory issues. The five essays contained in this volume are written by historians and attempt to give us a historical perspective on an amazingly wide variety of issues covered by "regulation". Their approach, as McCraw points out, is institutional, and they strive to place regulation into the broader context of organizational development and cultural change.

The initial essay, by McCraw, reopens the trust question and attempts to put recent developments on this issue into the broader context of anti-trust scholarship since 1912. In this effort, McCraw succeeds admirably, as his essay summarizes recent research, expands our horizons and defines new areas for research. A lot of his reasoning is based on new work in economics and the negative impact of regulation on economic efficiency and its anti-consumer bias. His conclusion, in the tradition of Robert Bork, Oliver Williamson and Al Chandler, is that regulation — in the Brandeis tradition — has been anti-competitive and anti-consumerist.

Morton Keller's essay on the Pluralist State takes a comparative look at regulation in the first three decades of the twentieth century. His comparisons are with Europe and the U.S. in the years immediately before 1900. This essay covers a lot of ground in a relatively few pages and the wonder is that Keller can do this so well. His conclusions, based on this transnational and long-term view, are that regulatory activities depend upon the peculiar economic characteristics of a society, technological advances, and general cultural change. He sees regulation as a sort of necessary evil to counter the "antisocial forces" inherent in modern industrial economies.

To those of us familiar with Ellis Hawley's scholarship, his contribution to this book will come as no surprise. His essay is a case study of the period of Hooverian Associationalism, 1921-1930, using as his examples the movie, lumber and aviation industries. Certainly we are all aware that these industries are currently regulated to some great extent. Hawley's evaluation of this period reveals that ideas and ideology played a larger role than previously appreciated in "shaping national regulatory policy". This ideology comes mainly from the experience of World War I, and had not been a major component of previous American political culture. He concludes that a number of the procedures and mechanisms of the regulation developed under this ideology stayed after the ideas themselves had been discredited.

Samuel Hays penned an essay investigating political choice in the administration of the regulatory activity. Hays selects the following areas for his analysis: the politics of administration;

the economic context of regulation; the regulators and their world; and the relationship between the public and public regulation. Given the disparate nature of these organizing principles, it's difficult to derive any consistent conclusions, but Hays does make some key points. One is that before World War II regulation focused on producers, while after 1945 consumers became advocates of change. Secondly, technology became an actual context of regulatory choice. Finally, he makes a plea for more analysis of the ideological context of regulation. In this latter regard, this paper echoes the Hawley paper.

David Vogel contributes the final piece, an essay on the new social regulation and its place in history. By social regulation, he means the impact of corporate behavior on the environment and upon consumer behavior. He sees this as a "new wave" of regulatory activity and focuses mainly on the 1960-1980 period. This essay is primarily descriptive and chronological in nature, but comparative as well, bringing in Western Europe and Japan. He finds that, while environmental and consumer protection certainly exists in Japan and Europe, they are more well defined and "onerous" in the U.S. This essay is an excellent primer on the development of this new regulation and its impact in the major industrialized economies of the world.

Taken as a group these essays fulfill their stated purpose of placing regulation in historical perspective. However, they do much more as well. We learn from this volume not only of the historical perspective, but also of transnational differences, the impact of technology and culture and, most importantly, the influence of ideas and ideology. A fitting summary would seem to be the old adage of John Maynard Keynes that we all suffer under the influence of some academic scribbler of ages past. What would be really interesting is to read revisions of these same articles in the perspective of the past decade. For this effort, I urge Tom McCraw to quickly organize another conference on the same theme.

Lee D. Parker (Ed.), *Financial Reporting to Employees: From Past to Present* (New York: Garland Publishing, Inc., 1988, 247 pp., $35).

by Anne Loft
Copenhagen Business School

This book is a fascinating collection of papers designed to give a historical perspective on corporate reporting to employees. It will be of value not only to those interested in the specific relationship between accounting and industrial relations, but also to those interested more generally in the relationship between accounting and its social and organizational context.

The inspiration to publish this clearly came as result of the literature search Lee Parker carried out for an article which he co-authored on the pattern of development of financial reporting to employees from 1919 to 1979 [Lewis *et al*, 1984]. In this paper, which is reproduced at the beginning of the book, it is demonstrated that financial reporting to employees was not a "discovery" of the 1970s, or even the 1960s, but had been discussed and practiced earlier in the century. Even more interesting, the production of these reports seemed to follow a wave pattern: there was interest just after the First World War, again around 1940, it reached new heights in 1949, revived again in the late 1950s/early 1960s, and again in the latter part of the 1970s. These peaks are tentatively claimed to be linked with the application of new technology to the workplace, increased merger activity in the corporate sector, groundswells of anti-union sentiment, and economic recession and/or fears of recession. In the *Introduction* to this book Parker writes that these peaks:

> . . . reflected corporate management's interest in telling its own story or version of events that had overtaken, or were about to overtake their employees. This may suggest a legitimizing or propagandist role for such reports, at least in the perception of some report producers [p. xviii].

The papers are divided into six groups: "Early Stirrings;" "Reporting Rationales;" "Reporting Methods;" "Reporting Practices: Case Studies and Surveys;" "Assessing Employee Interest;" and "Reporting in an Industrial Relations Context." While I found the papers interesting, I also found it hard to see the logic in their arrangement. Personally I would have preferred them to have simply been arranged in chronological order because there is much overlap in the issues with which they deal. For instance, most of the papers contain something which could be called "Reporting Rationales", yet oddly under this heading itself there appears two papers from 1960/61 and one from 1973, nothing from an earlier period. Arranging the papers in chronological order would also have helped the reader who wants to see the papers in the context of the explanations of the peaks in interest put forward in Lewis *et al* [1984].

One of the valuable things about this collection is that the thirty-one papers come from a wide variety of sources, from the local *Illinois Manufacturers' Costs Association, Monthly Bulletin*, to the more well known *Journal of Accountancy*. Thus the reader can get an impression of different groups' ideas on reporting to employees, not only the view from accountancy. Sometimes the past can surprise us. R. Keith Yorston, an official of the Australian Society of Accountants [1959], writes about the "moral obligation" [p. 44] which an employing company has to supply financial information to employees, suggesting that:

> in the same way that the accounting profession has become greatly interested in taxation, so in the future it must, I suggest, become similarly interested in supplying information to employees and the representatives of employees (p. 50).

Would a professional accounting journal print such an article today? Historical material can have an important role in revealing that the past is not so simple as many management propagandists would have us believe; when reporting to employees is next rediscovered as the 'Columbus egg' in progress towards a more democratic workplace, this book will help us remember.

One of the central issues which all those writing about the topic of financial reporting to employees had to, and still have to, address is that of the role of workers in the enterprise. They have to address the paradox that workers are on the one hand defined as mere factors of production: 'hands' or 'labor', the cause of that item 'wages' on the financial statements; on the other they are human beings, and to be treated as capable of understanding business, albeit in simplified form. Andersen [1961], writing in *The Accountant*, treats "Labour as an Investment":

> The supplier of labour is in fact rather like the provider of capital, in that he also invests something in the business, namely his labour and personal skill.

Like the supplier of capital, the supplier of labor should be:

> advised periodically of the financial progress of his employer, so that he too may have the opportunity of assessing the worth and prospect of his investment.

This comparison is carried further:

> capital has an indefinite life and can appreciate, whilst labour ceases to exist on the death, incapacity or retirement of the supplier; it also deteriorates with age [p. 52].

This last paragraph illustrates that when labor is reduced to a mere factor of production, as Sievers writes, workers are defrauded of their mortality as they are converted into production means, tools, cogs, dead-wood, or scrap, and to the extent that workers are perceived and treated like things they are also regarded as non mortals [Sievers, 1990, p. 133]. Here death is recognized, but only as a cessation in a supply of a factor of production. Yet the notion of advising the supplier of labor of the financial progress of "his investment", and the optimistic message at the end of the article, that: "the working population is better educated and more widely read than ever before. Some employers have recognized this fact, and in conjunction with the trade unions concerned are attempting to create a real partnership in industry and commerce" [p. 55], show the paradox, for here the worker is a human being, not a mere cog.

Whether these financial reports directed at employees are a representation of a genuine attempt by management to cooperate with employees, or mere propaganda (or a mixture of both) is in this book left open for the reader to decide. Parker only hints at their possible "legitimizing or propagandist role" [p.xviii]. In my view, financial reporting to employees brings together two systems of managerial control over work which have been developed and elaborated during the twentieth century, namely industrial relations and accountancy; financial reporting to employees represents the use of accountancy in industrial relations. As Knights and Collinson [1987] describe, accountancy is peculiarly powerful as a disciplinary force in management-worker relations, it can be used to create an "agenda and script" for management-labor discussions [Bougen, 1989], its appearance of being the "facts" makes it hard to challenge, as was amply demonstrated in the recent Coal Strike in England [Cooper and Hopper, 1988]. Whatever the readers' standpoint on these issues, this is a very useful work to consult.

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Robert H. Parker (Ed.), *Accounting in Australia — Historical Essays* (New York: Garland Publishing, Inc., 1990, 559 pp., $95).

by Hekinus Manao
Cleveland State University

Australian accountancy has been a special interest of accounting scholars, not only because of its lively academic influence upon the development of accounting thought, but also for its recognizable differences compared to that of the USA and the UK. *Accounting in Australia — Historical Essays* is a collection of 27 prominent essays and other related works in Australian accounting history, aimed to provide "an opportunity to examine how accounting techniques, institutions, and concepts have been imported and adapted to an environment similar to, but not exactly the same as, that of the exporters."

Several characteristics of accounting development in Australia can be observed in the series of readings. The early growth of the profession was fragmented by state. Australian accountancy was influenced by British accountancy until 1970 and by American since then. Except in Victoria, it was unregulated until the early part of this century. It has also been characterized by some innovative attempts to improve accounting reporting. Therefore, Australian accountancy has been a world leader in accounting theory contributions, particularly since the 1960s as some notable publications, including those of Chambers, achieved international reputation.

These twenty-seven selections were organized under seven sections. Four articles were included in the first section to provide a historical inquiry into the early accounting records in

Australia. During the first forty years of European settlement in this continent, there was no legal currency; therefore, barter transactions were dominant. In the barter economy, accountancy took a role to make such transactions easier by "using money as a unit of account even if money is not available as a means of payment" [p. 46]. Even so, Goldberg's survey, published in 1953, found no instance among the accounting records of this period of a set of double-entry records.

Six articles were included under the section heading "Corporate Financial Reporting". The first selection [Gibson, 1979] views the development of corporate accountancy in Australia as having passed through four phases, namely the introduction of minimum standards of disclosure, the extension of statutory requirements (e.g. income statements and consolidated reports), the phase of details of disclosure improvement, and the challenging problem of accounting measurement. The "Land Boom Case" of the 1880s played an important role in the regulation of company financial reporting in Victoria. Meanwhile, the disclosure requirements for banks and mining companies had the major influence in New South Wales where corporate disclosure was substantially unregulated [Morris, 1984]. Tracing back the historical phenomena of the evolution of financial reporting in these two important Australian states, Whittered [1986] comes to the conclusion that the introduction of consolidated reporting was "a natural response to an increasingly innovative market" [p.137]. Other than those, the renowned Zeff's "Forging Accounting Principles in Australia" [1973] regarding the development of accounting principles in this country until the early of the seventies, is, of course, another important part in this section.

Another major section, "Professional Accountancy", provides a historical explanation of Australian professional accountancy. The first two articles by Macdonald [1936], "Historical Survey 1886-1930," and Steele [1950], "An Accountant Takes Stock of the Past and Glances into the Future," respectively, serve to supply a historical description of the two surviving professional organizations in Australia: the Australian Society of Accountants (ASA) and the Institute of Chartered Accountants in Australia (ICAA). Before the movement toward the integration of both the professional organizations and practicing firms, the rise and fall of many professional organizations was a unique phenomenon. The list of thirty-five different accounting organizations in the appendix of Gaven's article, which is not claimed to be complete, illustrates this rise and fall.

Only two articles are found in the section "Audit". The first selection, digressing from the mainstream of the contents of this book, regards the origin of the audit in the public sector. However, the worth of this section emanates from the second essay [Gibson and Arnold, 1981] which explains how the contributions of one man, F. E. Trigg, have largely marked the ideas of auditing standards development in Australia. Unfortunately, Trigg's paper, titled "Contemporary Audit Practice", was not presented in this book.

Another important section consisting of five articles provides a historical representation on the Australian accounting literature. This section includes the essay regarding the popular theory, *CoCoA (Continuously Contemporary Accounting)*, proposed by chambers since the 1960s.

Next is a section of biographies and bibliographies. This last section includes two biographies of Chambers and Fitzgerald. The latter is a former Chairman of The Commonwealth Grants Commission who inspired various improvements in the public accounts.

In the introduction of *Accounting in Australia*, the editor explains that the seven headings in this book are "to some extent arbitrary." It is difficult, however, to speculate as to the reasons why the editor classified the two short articles regarding the common use of the same financial year in Australia, i.e. June 30, as a separate section following the first. This section contributes no important information about the main purpose of this book, and it seems out of context. In fact, the role and development of accounting education in Australia, although more important, is, unfortunately, not covered by this book.

This book should have included a rough map of Australia to help readers in identifying the different regions and historical locations. It's a deficiency, too, to have the first part of this book (cover pages, content pages, and the introduction) without page numbers (i.e. Roman numerals). The source publication of the second essay in "Accounting Literature" section as mentioned in the list of contents is different from the actual source. Also, some mistypings and needed punctuation in the introduction were just ignored.

Apart from the deficiencies identified above, this book is still able to act as an important vehicle to better knowledge about accountancy in Australia.

Relevance Rediscovered (An anthology of 25 significant articles from the NACA Bulletins and Yearbooks 1919-1929). Selected by Richard Vangermeersch. (Montvale, NJ: National Association of Accountants, 1990, 400 pp., $39.95).

by Lamont F. Steedle
Towson State University

Relevance Rediscovered is an anthology of significant articles describing cost accounting practices and developments which have appeared in the periodicals of the National Association of Cost Accountants (NACA), known today as the National Association of Accountants (NAA). The publication of the first in a series of volumes signals the beginning of the commemoration of the organization's 75th anniversary in 1994. NAA's goal is to provide the reader with:

> . . . the opportunity to be able to explore the writings of leader member/practitioners of the NACA from its inception. Contained in this volume are the great accounting ideas of the past, to help you solve today's and tomorrow's problems. [p. iii]

If this first volume is representative of those to follow, the NAA has succeeded in providing that perspective.

Volume I of the anthology covers the organization's initial decade from 1919-1929. It contains articles gleaned by researcher Richard Vangermeersch from NACA bulletins and yearbooks. Yearbooks comprised the papers presented at the annual cost conference. Bulletins containing articles were regularly published twice a month beginning in 1922, and prior to that on a sporadic basis. The 25 articles chosen, presented chronologically, were selected by Vangermeersch to provide a sample of the decade and to complement his choices forthcoming in future volumes in the series.

The articles are prefaced by a wonderful introduction in which Dr. Vangermeersch cites 10 reasons why this past literature should be studied, followed by a concise introduction and review of each article. In introducing an article, he provides background on the author and offers several thought-provoking questions for the reader. Although his comments are directed to the reader as management accounting practitioner, the work is easily adaptable for the classroom as well.

All of the individual articles are deserving of the reader's attention but in addressing the goal of using the great ideas of the past to solve current problems, some selections are more appropriate than others. Some topics are of questionable relevance to today's problems, some articles are only marginally tied to accounting, and some works made for slow reading. Indeed, there are times when reader interest, piqued by Dr. Vangermeersch's introductory comments, falls upon encountering the article. Although three or four selections could be eliminated without sacrifice, all of the works are worthy of inclusion.

There are six articles ideally suited to the purpose of the anthology in the mind of this reader: (1) "Calculation and Application of Departmental Burden Rates" by Gould L. Harris, which traces the history of overhead accounting and presents a solution to the allocation problem; (3) "Some Problems in the Actual Installation of Cost Systems" by H. G. Crockett, which examines issues relative to the types of cost systems used in particular factories, (9) "Radio Education Campaign" by the NACA, transcripts of radio messages addressing the role of cost accounting to workers, management, and the public; (12) "Indirect Labor" by Harry J. Ostlund, which examines a growing segment of costs undergoing little detailed analysis; (18) "Question Box" with NACA President Clinton H. Scovell presiding, a debate of five current management accounting problems; and (19) "Financial Control Policies of General Motors Corporation and Their Relationship to Cost Accounting" by Albert Bradley, which provides a detailed case study of a cost accounting system.

In light of recent accusations that management accounting has lost its relevance, and in view of the fact that the factory of the future is changing the discipline of cost accounting and new world-class accounting systems must evolve to meet the needs of world-class manufacturers, this work provides a useful perspective. What were cost accounting systems like in the 1920s and have they changed? Are the new cost accounting ideas of the 1990s all that new? Opinions on these matters, along with a sense of the problems of the time and the thinking of the leading cost accounting minds, stimulate the thoughtful reader to appreciate this resource.

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